

GOVERNMENT-SPONSORED ENTERPRISES [GSE's] INTERIM HOUSING GOALS PERFORMANCE IN 1993

Y 4. B 22/3: S. HRG. 103-588

Government-Sponsored Enterprises (G...

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

ON

THE HOUSING GOAL PERFORMANCE IN 1993 OF FANNIE MAE AND
FREDDIE MAC, THE TWO MAJOR HOUSING GOVERNMENT-SPONSORED
ENTERPRISES [GSE's] REGULATED BY HUD TO IMPROVE ACCESS TO
AFFORDABLE HOUSING TO LOW- AND MODERATE-INCOME FAMILIES
AND TO LIMIT GOVERNMENT RISK ON POTENTIAL LOSSES

APRIL 13, 1994

Printed for the use of the Committee on Banking, Housing, and Urban Affairs



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GOVERNMENT-SPONSORED ENTERPRISES [GSE's] INTERIM HOUSING GOALS PERFORMANCE IN 1993

WEDNESDAY, APRIL 13, 1994

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 10:20 a.m., in room SD-538, of the Dirksen Senate Office Building, Senator Donald W. Riegle, Jr. (Chairman of the Committee) presiding.

OPENING STATEMENT OF CHAIRMAN DONALD W. RIEGLE, JR.

The CHAIRMAN. The Committee will come to order.

Let me welcome all those in attendance this morning, and most especially Secretary Cisneros, who is here with us today.

I understand that Nicolas Retsinas, who serves as the Assistant Secretary of Housing, is also going to be with you and I see he has taken a seat at the table.

The purpose of our hearing this morning is to focus on how Fannie Mae and Freddie Mac have performed in reaching their interim housing goals. These HUD requirements were established according to the Federal Housing Enterprises' Financial Safety and Soundness Act of 1992, which was a bipartisan effort led by this Committee to ensure that the GSE's—the Government-Sponsored Enterprises—worked to improve access to affordable housing and at the same time, to limit Government risk on potential losses.

The goals were prompted in part by concern about whether Freddie Mac and Fannie Mae were sufficiently serving the home financing needs of low- and moderate-income families.

Federal law bestows very special benefits upon the GSE's, like exemptions from State and local taxes, a \$2.25 billion line of credit with the Treasury Department, and a market perception of an implicit Federal guarantee for more than \$1 trillion of their liabilities.

These are very valuable benefits, Government-conferred, and last year, I think it's fair to say they helped the GSE's earn profits of \$2.7 billion, while purchasing more than half of all new-home mortgages.

In return for these privileges, the GSE's charters require them to serve specific public purposes, including providing financing assistance to low- and moderate-income borrowers and borrowers in central cities and other underserved areas.

That is why the legislation developed 2 years ago by this Committee created goals for the GSE's financing of housing for these kinds of borrowers.

On March 1, 1994, the GSE's filed their first annual reports with Secretary Cisneros. Although the reports showed that the GSE's have made progress in providing affordable housing to underserved areas and groups, not all of the goals were met. Specifically, only 26.3 percent of the dwellings Fannie Mae financed were in central cities, while its goal for such financing set by HUD was 28 percent. Similarly, Freddie Mac failed to reach its 28 percent central cities goal, with only 24 percent of the units financed qualifying under this criteria.

Now these are extremely important goals and they are not excessively high. But they're important because they involve the ability of central city residents to get access to mortgage credit. So today, we want very much to hear the Secretary's views on this concern and what action he is taking to further improve compliance with these goals.

Among the most critical needs in central cities is financing for multifamily properties. The multifamily market has been very weak now for several years. I think it's particularly important that the GSE's do everything they can to help fund multifamily projects.

Finally, because Fannie Mae and Freddie Mac essentially establish the underwriting criteria used by most of the lending industry, their role in fair lending is critical. The GSE legislation explicitly applied fair lending laws to the GSE's.

We would like to know today what steps HUD is taking to ensure that those laws are being enforced and whether HUD will be directing the GSE's to take any remedial action against discriminatory lenders. I think it is essential that Government and Government-sponsored credit agencies set the premier example for private lenders in eliminating all discriminating practices and policies. They should not be tolerated. They're against the law. They violate the moral code of the country, and they need to be eliminated.

So we're very pleased to have as our witness today HUD Secretary Henry Cisneros, who's been so forceful in a leadership way in moving across the whole range of issues relating to the Department of Housing and Urban Development and housing opportunities for people in our country.

I want to start out by commending you again publicly in this setting for your efforts at HUD to make housing affordable and at the same time, accessible to all Americans.

We very much look forward to continuing to work with you in this area and I'm anxious to hear your comments on the GSE's efforts in 1993, and the likelihood of them meeting all of their goals in 1994, and the possible changes in the regulations that you may have in mind. So, with that, let me welcome you to the Committee and I invite your comments at this time.

Before you start Mr. Secretary, Senator D'Amato just came in. Let me give him the opportunity to make any opening comments that he may wish.

OPENING COMMENTS OF SENATOR ALFONSE M. D'AMATO

Senator D'AMATO. Well, thank you very much, Mr. Chairman. Mr. Secretary, it's good to see you.

Secretary CISNEROS. Senator.

Senator D'AMATO. Mr. Chairman, I'm going to ask that the full text of my remarks be placed in the record as if read in its entirety.

The CHAIRMAN. Without objection.

Senator D'AMATO. First of all, let me thank the Secretary and his staff for doing a heck of a job in attempting to meet the needs of the homeless and particularly those who have some very acute problems and illnesses, those who are AIDS- and HIV-infected.

Many have no place to live, nowhere to go, and no hope left. There is a magnificent effort that has been undertaken down on the Lower East Side in Manhattan to address this need. I just want you to know that I'm deeply appreciative of your commitment to help Housing works move in a direction that will help them meet a challenging goal.

I understand that they're going to be meeting with people on the staff level who will advise them as to how to proceed to make their plan a reality.

Mr. Chairman, I'm disappointed that neither Fannie nor Freddie were invited to testify at this hearing because I think it's important to get their insights on the goals that have been set for them and what they have been able to achieve thus far.

I have read the Secretary's testimony in which he recognizes the importance of the transition period and acknowledges that both GSE's are moving forward in a way that would indicate that they are deeply cognizant of the goals and the principles that are embodied in the testimony of the Secretary.

We have to know that multifamily housing, in particular, is a very high-risk business, particularly when we're trying to meet the housing needs of low- and very low-income families and individuals throughout this country.

It's critical that these goals are not unrealistic or unfeasible because defaults are counter productive for everyone. We've got to be very careful in balancing housing needs with actuarial soundness. While Freddie and Fannie bring tremendous benefits to the marketplace, they cannot be a substitute for the critically important housing programs of HUD. I know that the Secretary recognizes that.

We don't need more hearings, but I do think, Mr. Chairman, it will be important for us to have at some point in time Freddie and Fannie explain to us, to the Committee, just where they are, how far they've come, and what it looks like in terms of accomplishing the goals.

I thank the Chair. Again, it's good to see you, Mr. Secretary.

The CHAIRMAN. Thank you very much, Senator D'Amato.

Mr. Secretary, we'd like to hear from you now. We'll make your full statement a part of the record, and we'd like your comments.

STATEMENT OF HENRY G. CISNEROS, SECRETARY, HOUSING AND URBAN DEVELOPMENT, WASHINGTON, DC; ACCOMPANIED BY NICOLAS P. RETSINAS, ASSISTANT SECRETARY FOR HOUSING, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Secretary CISNEROS. Thank you, Mr. Chairman, Senator D'Amato.

We're very happy to be here today to discuss Fannie Mae and Freddie Mac's housing performance goals in 1993. Seated to my right is the Assistant Secretary for Housing, FHA Commissioner Nic Retsinas, in whose area we have placed the GSE goal-setting effort.

He is seated here because there may be questions that he will want to answer, but really, more importantly, because this has been a collegial effort and it's just appropriate that he be here.

With your permission, I also have some charts present that we want to use to explain some of the progress as we go forward.

The CHAIRMAN. Good.

Secretary CISNEROS. You've stated consistently that a steady supply of decent, affordable housing for communities is central to the mission of the Federal Government and the Department of Housing and Urban Development in particular. Also, Mr. Chairman, you've stated the importance of improving access to mortgage capital for minority citizens and minority communities.

We at HUD want to create communities of opportunity and restore hope in underserved neighborhoods. We will fall woefully short of that goal without a strong, viable commitment to fair lending and fair housing. We must be dedicated to this and HUD and the Administration have made it clear that we will not tolerate those aberrant forces, discrimination, in our housing market.

We're committed to ensuring that minority Americans are not shut out of the lending process because of their race or ethnic make-up of neighborhoods. The GSE goals are integral to those efforts. These are not just arbitrarily set numbers to satisfy a bureaucracy, but they go to the heart and soul of how we will build diverse, economically viable communities.

Whether we're talking about improving low- and moderate-home ownership or eliminating mortgage and housing discrimination, we will have to do this employing all of the resources, all of the institutions, real partnership across the society.

We're working with other levels of Government and agencies, with private and nonprofit sectors to put these priorities into action. And while we do have oversight responsibilities for Fannie Mae and Freddie Mac, we also believe that they can be partners, real functioning partners in this process.

I do want to say to you, Mr. Chairman, Senator, that this is an instance where a Committee's work and the drafting of legislation has resulted in some dramatic changes already. The numbers you will hear today are changes from what otherwise would have been the case, but for the drafting of the legislation which you helped craft.

Additionally, beyond numbers, are changes in culture, changes in expectations, changes in the role of the agencies, of these institu-

tions, which are a direct result of simply stating Federal Governmental goals and intent.

This is one of those instances where the Federal Government, without having to spend dollars, has wrought change across America and touched, over the course of things, millions of lives by exercising its oversight responsibilities.

I sincerely want to compliment you for this. It happened before my arrival at the Department. I'm the beneficiary of your work on this because it gives us the opportunity to enforce some goals that the Committee, other Members of the Congress, very foresightedly set.

The CHAIRMAN. Thank you.

Secretary CISNEROS. I'm here to report that both of the enterprises have improved their overall performance with respect to the goals that we set in 1993. But I also must inform you that not all the goals have been met.

More work must be done in order to call this a successful relationship. And while both Fannie Mae and Freddie Mac have begun new programs to strengthen their ability to help low- and moderate-income families, we at HUD still have some concerns about lending opportunity that relate to minorities and particularly to multifamily housing.

First, I'd like to take a few minutes to brief you on just how Fannie Mae and Freddie Mac did. The new GSE goals relate to Fannie Mae and Freddie Mac helping finance low- and moderate-income mortgage loans, central-city mortgage loans, and special affordable housing. Those are the three categories we'll report on today.

Based on information provided by Fannie Mae and Freddie Mac on March 1, 1994, their low- and moderate-income purchases were equal to 35.6 percent in the case of Fannie Mae and 29.2 percent in the case of Freddie Mac. Both these entities showed significant gains in comparison with their 1992 figures and both exceeded the goals we established in this area. You will see in the pink chart there the 1992 actual and 1993 goals for them, respectively. And you will see that both exceeded their goals and were substantially better than 1992.

Now, with respect to the next category, central-city financing, neither Fannie Mae nor Freddie Mac met their goals in 1993. Fannie Mae had 26.3 percent of its activity benefiting central-city residents, but it didn't achieve the 28 percent goal that we set for central city activity.

You'll see in the pink there that they exceeded their 1992 actual, but fell short of the 1993 goal. And in the green, Freddie, you will see as well that they fell short. Freddie Mac gained in comparison with 1992, with 24 percent of its activity reported in central cities, but fell short of its 26 percent goal.

Fannie Mae and Freddie Mac both say that the refinancing boom of 1993 hampered their central-city efforts. They also note that the OMB definition of what are central-cities, we're required to use by statute in this transitional period, 1993 and 1994, is not a perfect definition because it doesn't capture all the relevant characteristics for capital deprived inner-city communities. We understand that.

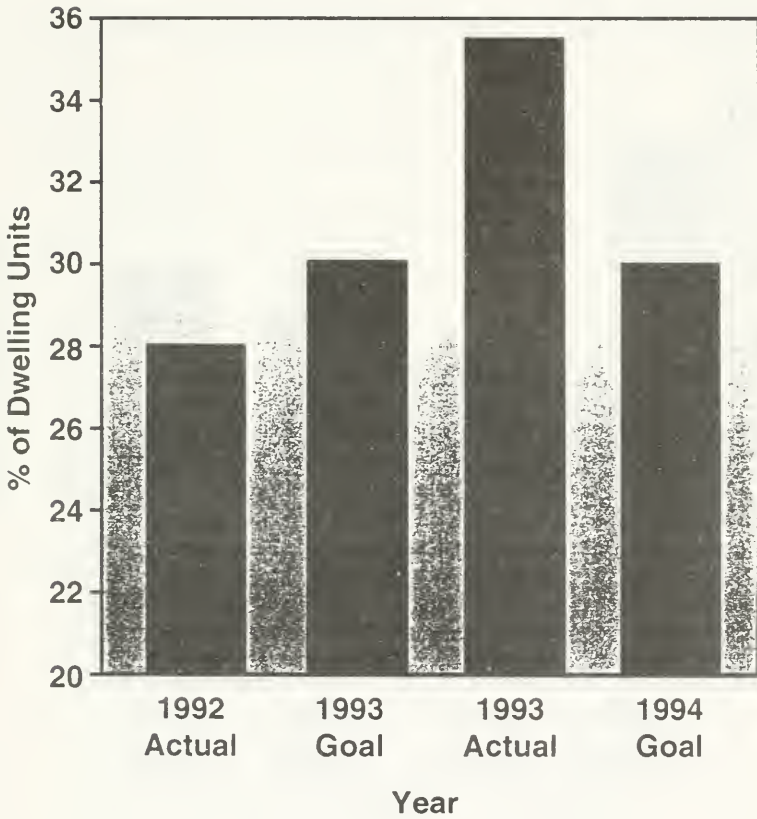
We still feel the goals were achievable and point out that Congress established the central-cities definition for 1993 and 1994.

I should note, Mr. Chairman, that failure to meet the central-city goals does not result in sanctions this year. During this transition period, HUD does not have the authority to impose sanctions. Part of the reason for a transition period is to allow the entities to refocus their business to gear them toward reaching these goals. We are, however, asking both GSE's to submit housing plans detailing how they will achieve the central-city goals in 1994.

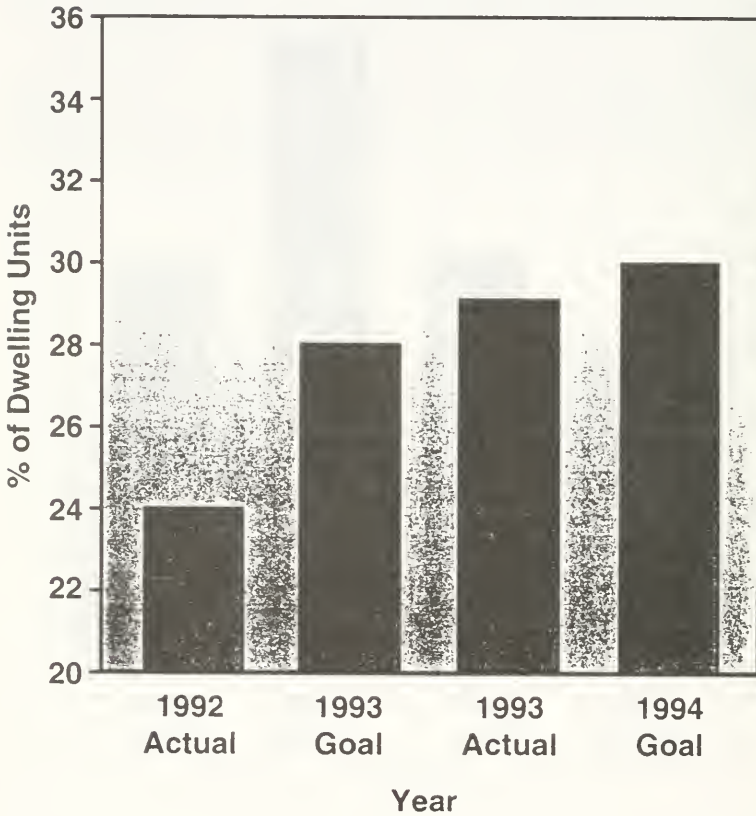
Both companies are on their way to meeting the third category—special affordable housing goals, achieving more than 50 percent of their 1993–94 single-family subgoals and their total goals in 1993.

Fannie Mae achieved 56 percent of its 2-year, multifamily goal last year. We're concerned, however, that Freddie Mac achieved just 3 percent of its multifamily goal. This has been a longstanding shortfall with Freddie Mac which will require substantial work on the part of Freddie Mac to get up to speed.

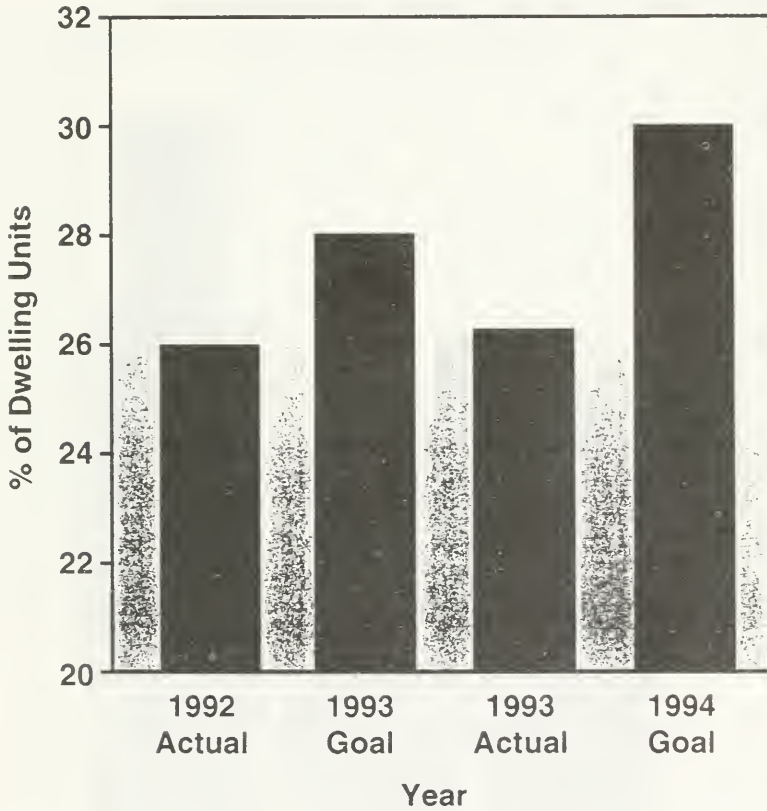
Low-Mod Activity of FNMA: 1992 and 1993 Performance, Goals for 1993 and 1994



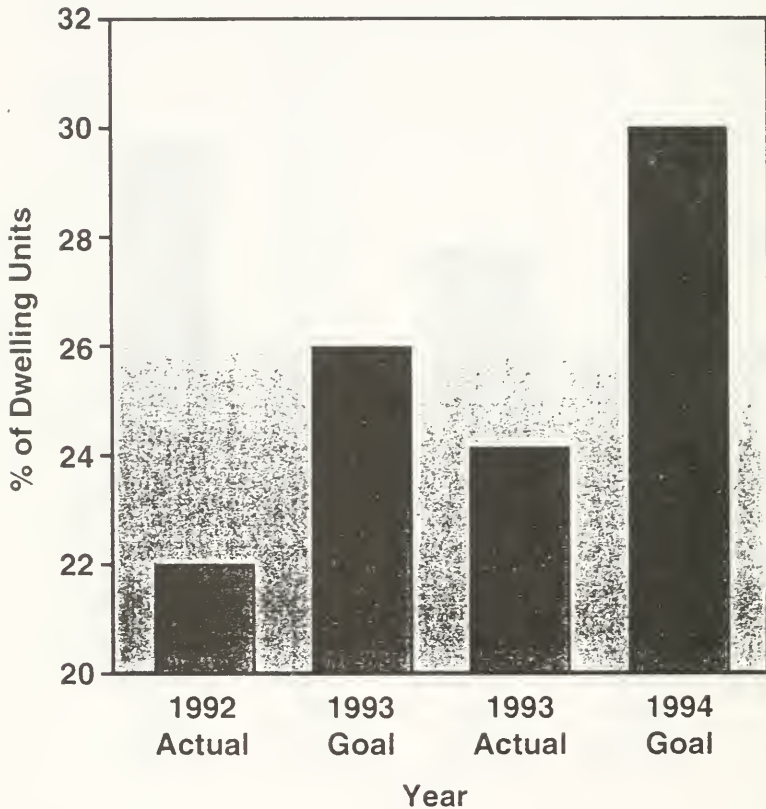
Low-Mod Activity of FHLMC: 1992 and 1993 Performance, Goals for 1993 and 1994



Central City Activity of FNMA: 1992 and 1993 Performance, Goals for 1993 and 1994



Central City Activity of FHLMC: 1992 and 1993 Performance, Goals for 1993 and 1994

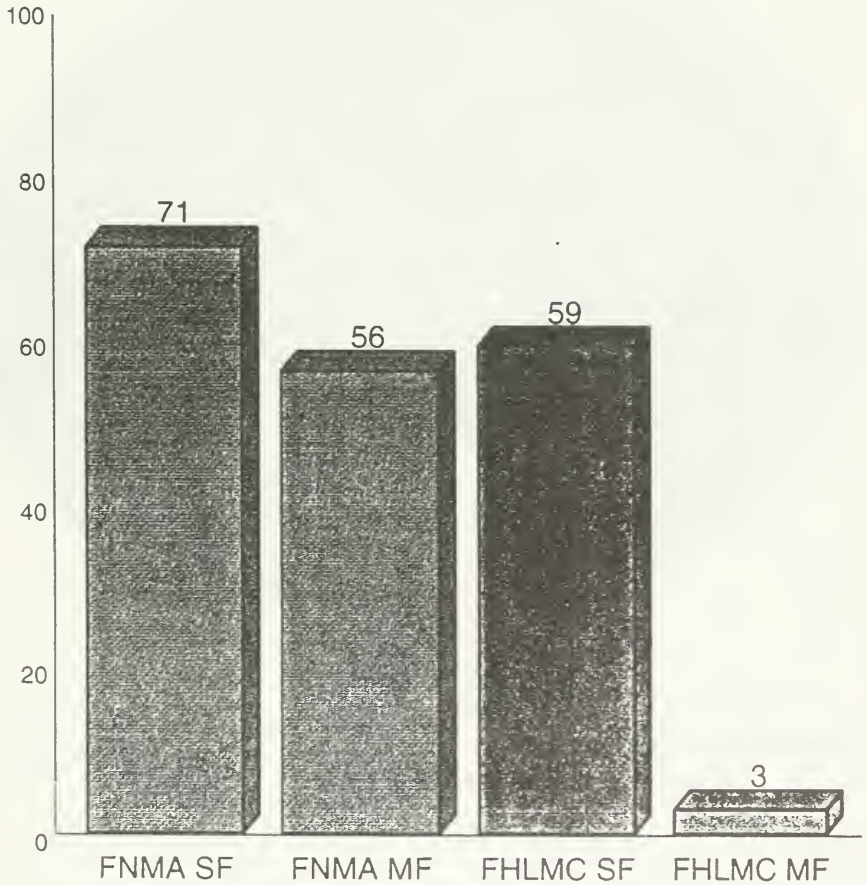


Special Affordable Housing

1993-94 Goals:

FNMA Single-Family	\$12.4 Billion
FNMA Multifamily	\$ 3.7 Billion
FHLMC Single-Family	\$11.1 Billion
FHLMC Multifamily	\$ 0.8 Billion

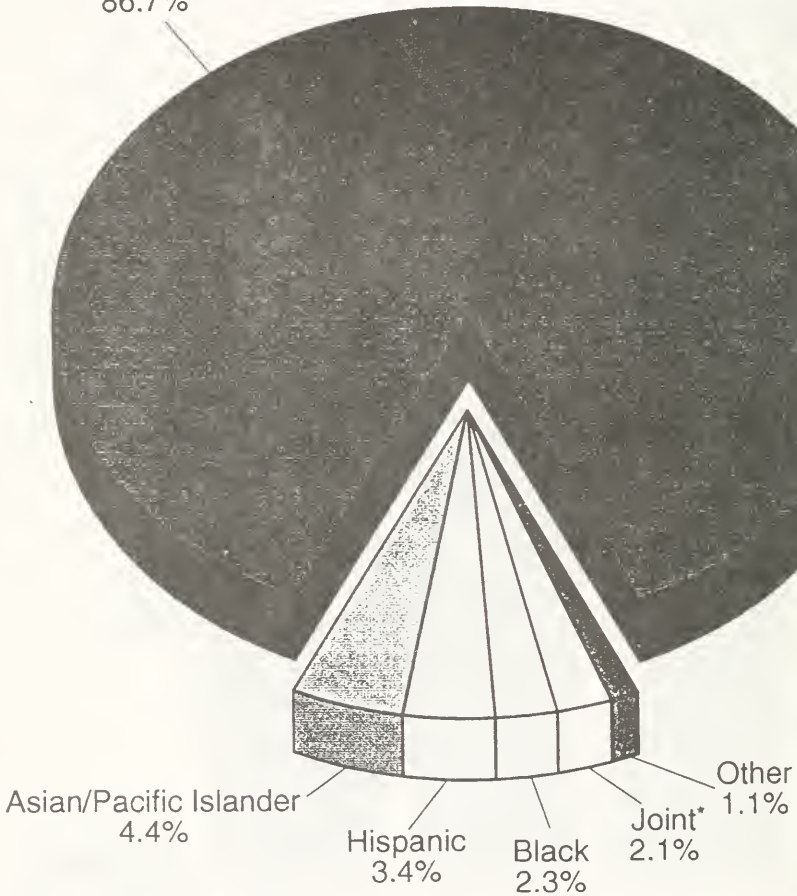
Percentage of Goals Achieved in 1993:



FNMA Single Family Mortgage Purchases in 1993 By Race/Ethnicity of Borrower

(Percentage of Total Purchases)

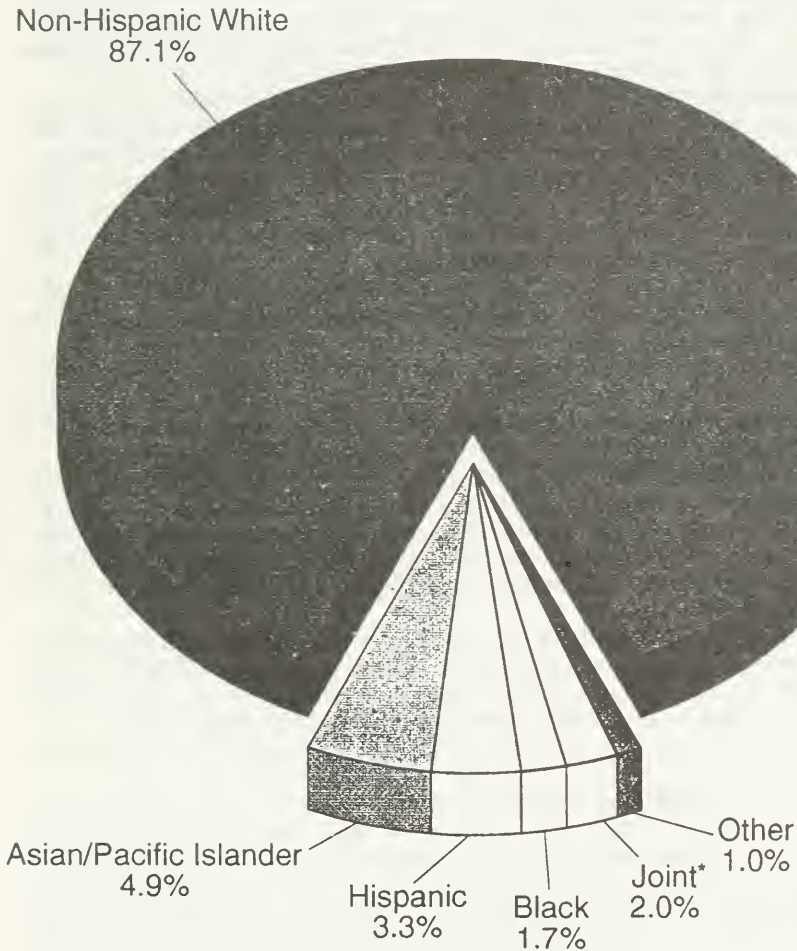
Non-Hispanic White
86.7%



*Joint: Borrower and Co-Borrower Are of Different Races or Ethnicity

FHLMC Single Family Mortgage Purchases in 1993 By Race/Ethnicity of Borrower

(Percentage of Total Purchases)



*Joint: Borrower and Co-Borrower Are of Different Races or Ethnicity

The CHAIRMAN. Let me just say to you, that seems like such an anomaly, comparing the two. What explains that?

Secretary CISNEROS. It's just a traditional, historical aspect of Freddie Mac's business. That is to say, traditionally, they've not dealt with the institutions that were involved with multifamily, and it has traditionally not been a part of their work.

Senator D'AMATO. Mr. Secretary, just as an aside. We have to be very, very careful in this area.

Assistant Secretary Retsinas has pointed out previously that there has been devastatingly poor performances in multifamily lending. We've got a potential for very serious problems and an erosion that may be very, very difficult to deal with.

Freddie Mac has had to completely restructure their multifamily program. While we have goals and it's important that there be honest and full-faith efforts made, that where there is an institution that could really be damaged because some of the investments that were made were poor, were really poor, and there wasn't adequate supervision, I think they are really attempting to get back into the market in a responsible manner.

We've got to give them an opportunity to restructure their program so they can make a strong sound re-entry into the market. It's important that we know that.

Secretary CISNEROS. Yes, sir. As we've said, this is not a year in which we impose any sanctions. We simply report the numbers. These are congressional goals, debated in the Congress and set for public record.

It is true that they have had difficulty in the past. They will require some restructuring. But the truth of the matter is that we also need them to do that because so many Americans are presently paying such a high percentage of their budgets for housing, that we need more affordable housing and that is going to be in multifamily housing.

We simply have a whole category of Americans who are not candidates now for home ownership, and we need more affordable multifamily housing and need all of the institutions that have potential to be working in this arena, and that includes Freddie Mac.

The CHAIRMAN. Let me just pursue that just for one more moment.

When I look at that chart which you have up there and I recognize that Freddie Mac had a problem, and Senator D'Amato cites they've had some portfolio difficulties and so they've had to kind of work their way back through the nature of this kind of business.

But giving due allowance for that, when I see what Fannie Mae is able to do, the same general line of activity, I don't think there's plausible argument or excuse as to why Freddie Mac can't succeed in this area if Fannie Mae is succeeding in this area and we know we have a need.

I can't speak to the problems of New York per se, I know we've got problems in Detroit and the other cities. But I guess I would not want the message to go out of here that we can stay at 3 percent with Freddie Mac. I think we've got to drive those numbers up. I think they can be driven up. There are very competent people there. There's very strong leadership at Freddie Mac. I think it's

more a matter of perhaps a policy decision to harness the talent and the purpose to do this and do it competently.

I don't want it done incompetently. I don't want the money wasted. But when I see the guy next door is able to do it competently, there's no plausible excuse to say, well, they can do it but we can't. That's nonsense. If Fannie Mae can do it, Freddie Mac can do it, and I expect that they will do it because the need is out there and the need is getting bigger, not smaller.

I don't think this is a Draconian goal that we're setting here. But I think you can't come in here with a paltry 3-percent achievement factor. There's no excuse for that.

Senator D'AMATO. Mr. Chairman, if I might. I don't want to make this bigger than it is. I think the Secretary has stated it fairly. But let me illustrate to you how serious this situation is.

In 1990, Freddie Mac experienced over \$500 million worth of losses in their multifamily inventory. If we want to put them out of business, let them continue on that road. That's why they suspended their multifamily housing program. Loss for the multifamily program were 17 times greater than the individual single-family house losses. They are headed for disaster.

Last year, Freddie Mac closed \$200 million in multifamily mortgages. They didn't get credit for this because many of these loans were refinanced and that doesn't count toward the goals. However, in the real world, if we would add that \$200 million, that would take that 3 percent up tremendously.

Freddie Mac has got to enter this market cautiously, given the tremendous number of bad loans they have out there and their reworking of these loans now. I'm sure it's not just in New York, but in many of the inner cities where they have some of these problems, they're attempting to turn over these properties to various non-for-profit agencies and others who can make them work.

I'm suggesting that we not pile on the accusations without understanding the fragility of that particular situation that this group has inherited. They have inherited, those who are at the helm now, the situation that goes back to the late 1970's and early 1980's, when some very imprudent loan practices were permitted. I think we have to look at the totality of it.

Secretary CISNEROS. Senator, if I may, I'd like to just read briefly to your record a statement on this situation from our staff analysis:

Freddie Mac withdrew from the multifamily market in 1990, after it wrote off about \$500 million in losses on multifamily mortgages primarily in New York City and the Atlanta areas. Those losses were largely a result of inappropriately applied underwriting standards and overreliance on loan-to-value ratios instead of cash flow measures, use of dishonest or incompetent appraisers, and a reliance on underwriting reviews by lenders whose performance was inadequate.

Although Freddie Mac noted that the delinquency rates it's experienced were in line with those throughout the industry, Freddie Mac was not pleased with its experience, so it suspended all of its multifamily activity.

Freddie Mac has spent the last 3 years revising its multifamily program so that it will avoid repeating the mistakes it made in the late 1980's. It announced its re-entry into the multifamily market in December, 1993, and since then has purchased several portfolios of multifamily loans from private lenders and nonprofit consortia.

In order to match Fannie Mae's volume of multifamily business, however, Freddie Mac will have to increase its activity by a factor of 25. This will require Freddie Mac to be more aggressive about buying loans from a broader range of lenders, in-

cluding affordable housing lending consortia, nonprofit lenders, and lenders active in central city communities.

They have a big job to do. I think your statements today are very important in the balance of, on the one hand, clearly, the concern about soundness, but on the other, a recognition that there is a big job that they have to do and there's a kind of cultural organizational reorientation that has to occur for them to pull this off.

The CHAIRMAN. I just want to say for the record that Freddie Mac has had a very impressive financial performance. This is a highly profitable organization.

I appreciate that there has been some losses in the multifamily segment, and obviously, that problem has had to be dealt with and cleaned up. But not withstanding that, when I look at the 5-year earnings, 1989 through 1993, the net income has been rising sharply virtually every year. It was not true in 1989, but it has been in the years since, rising to \$786 million last year.

But even more significantly, the return on common equity is among the highest anywhere in the private sector of our economy. Not that this is totally private sector because it's a hybrid. But last year, there was a 22.2 percent return on common equity. The standard American corporation may be half of that.

The reason that Freddie Mac and Fannie Mae are in the portfolios of Warren Buffet's investment company and a lot of others, is that this is a blue chip operation. It's highly profitable, and it's highly profitable because it gets a lot of special advantages from Government because it's designed to achieve, in part, important public purposes which in effect it's doing.

But in this area of multifamily, while they bungled the job in a couple of key markets, and that problem has to be cleaned up, the fact that they've got to increase their volume by 25 times over to match what Fannie Mae is doing, tells me that we've got a big climb ahead of us.

I don't know that my friend from New York and I have much of a disagreement. I just want the climb made. I don't want this to take a decade to get back in business because they bungled the job before.

When they've got this kind of profitability and this kind of help from the Government and there's a pressing public need out there, the trick is to get the job done. And if they don't have people in charge of these things that can turn it around, people can be found who do.

I just want to make sure that there is this sense of mission to get this done. We can't have this kind of disparity over time because somebody didn't manage it properly at an earlier period. That's behind us, and that's no excuse for a shortfall now.

Senator MOSELEY-BRAUN. Mr. Chairman.

The CHAIRMAN. Yes, Senator Moseley-Braun.

OPENING COMMENTS OF SENATOR CAROL MOSELEY-BRAUN

Senator MOSELEY-BRAUN. Thank you. Mr. Chairman, if I may, first, I'm just going to file my opening statement, my formal statement for the record since the Secretary had already started speaking.

The CHAIRMAN. Without objection, so ordered.

Senator MOSELEY-BRAUN. And I also would like to take this opportunity to thank the Secretary for his activities earlier in the week. He came to Chicago and actually stayed over in Robert Taylor homes, which has been the site of some real tragedies in the last several weeks of shootings, the violence, the crime, and we've had to have sweeps instituted there to protect the residents who live in public housing on the South Side of Chicago.

The Secretary was good enough to come out and actually see first-hand that situation. And we had a wonderful, insightful conversation, I think, about the future of public housing and providing housing opportunities for individuals and people who are trapped, otherwise, in poverty and right now don't have many options. So I want to applaud the Secretary for his initiative and his commitment in this area.

But to get to the subject of today's hearing, I am, and maybe it's because I'm new here, but I am really—stunned is almost too light of a word to use, when we're looking at two companies, for all intents and purposes, quasi-public, quasi-private corporations, with an average of 25 percent, it was 34 percent for Fannie Mae in 1990, but an average over those last 5 years of about 25 percent return on investment, with huge corporate salaries for its executive directors.

And yet, the kind of numbers that we see here indicate a self-imposed ceiling of 30 percent. The fact that we've gotten to 35 percent in terms of performance, I think, is only impressive vis-a-vis the fact that the ceiling was set at 30 to begin with.

It seems to me that with the kind of support from the Government that these agencies receive, which distinguish them from the private sector, distinguish them from other secondary market players, but they ought not to set themselves only at 30 percent for doing low- and moderate-income housing.

The whole idea is not to do vanilla, the easy mortgages, but, rather, to engage and to do those mortgages, buy those mortgages that otherwise might not have an outlet in the private sector. And I just don't understand, on the one hand, the timidity in this area, again, the self-imposed limitation of 30 percent, and even beyond that, the performance, given that ceiling, the performance at 3 percent and 1 percent with regard to African-American and Hispanic mortgages.

It boggles the mind, my mind, to see this kind of track record. And while, like I said, it may be because I'm new that I am so stunned by all of this, but it just seems to me that given the kinds of guarantees and the kind of implicit, not explicit, implicit full faith and credit on this activity from the Government, that these organizations ought to be much more aggressive in regards to low- and moderate-income mortgages and minority mortgagees particularly.

I would also raise the point in this regard that I would very much like a report on the underwriting standards that are being used because very often, that's where the problem kind of starts in terms of not giving opportunities in areas that are already blighted, that are facing blight. Sometimes the underwriting standards become the barrier, the bar to more activity in those areas than not

and puts them in full conflict with the kind of safety and soundness regulations that I think we all recognize should exist.

And I would like, Mr. Chairman, a follow-up from someone on staff, the Secretary's staff if necessary, in that regard.

But I would just join you, Mr. Chairman, in expressing my concern in this area and my own encouragement to Freddie Mac and Fannie Mae to really take a good, hard look at what they're doing and what they're not doing and to beef up activity in regards to low- and moderate-income activity because this is not acceptable. It just is not acceptable. There's no reason.

If all they can do is 30 percent low- and moderate-income, then there's no reason, it seems to me, why they need all these guarantees. They can be just like any other private-sector actor.

Now I know that's kind of throwing the old bombshell in the well, but, at the same time, it just seems to me that the whole rationale is that they would go out there and be inventive and creative and support the development of low- and moderate-income housing.

And as the Secretary saw coming to Chicago this last week, the needs are so profound. The needs are so profound and they transcend public housing. If anything, part of my encouragement from last week was the Secretary's view that we've got to come up with opportunities to let people own and have private ownership, as opposed to putting the Government in the landlord business. And that's encouraging. But certainly, those opportunities won't exist if there is no secondary market for those mortgages and if there's no activity by Freddie Mac and Fannie Mae, then there won't be the kind of activity and those mortgages will have to look to the same secondary market that the downtown high-rises look to.

That's not what this program was set up for. That's not the objective of this Congress. Certainly, that is not something that I would want to add my imprimatur to. And so, I would encourage the Secretary in this regard, again, to do what he can do, to use his great offices to encourage the leadership at Freddie Mac and Fannie Mae in this area because, certainly, it has been too long coming that this has been treated as business as usual without any real concern for the opportunities of working people to have homes that are affordable.

The CHAIRMAN. Mr. Secretary, I'm the one that interrupted your presentation and I think we've had an important discussion here back and forth on this particular point.

I'm going to suggest you go ahead and finish your statement and then when you do, before we go to questions, I'll call on anybody else that may want to make an opening comment that didn't get a chance.

Secretary CISNEROS. I have just a few more moments, Mr. Chairman.

The CHAIRMAN. Fine.

Secretary CISNEROS. If the numbers that are up there are concerning, the numbers that I'm about to cite are even more so. They concern the shares of conventional originations and purchases by Fannie Mae and Freddie Mac of persons who are African-American and Hispanic.

Looking only at loans for which race data is available, about 12 percent of the GSE purchases were for mortgages with minority buyers. African-American borrowers account for only 2.3 percent of Fannie Mae's purchases and 1.7 percent of Freddie Mac's purchases. Hispanic borrowers fare only slightly better, 3.4 percent for Fannie Mae and 3.3 percent for Freddie Mac.

The CHAIRMAN. Could I just stop you there for a minute. And to put that into a larger context, would you know, or one of your people know, the degree to which all mortgages in the country that are originated would be to black Americans and what percentage would be to Hispanic Americans?

Secretary CISNEROS. Let me dig that number out for you, sir.

Senator BOXER. Mr. Chairman, 2.6 percent of all mortgages were made to African-American borrowers.

The CHAIRMAN. I'm sorry?

Senator BOXER. 2.6 percent of all mortgages, and they're lower. Fannie Mae is 2.3 percent. And 1.7 percent is Freddie Mac.

Secretary CISNEROS. I can tell you, for FHA, 7.4 percent of mortgages were made to African-Americans and 9.0 percent were made to Hispanics. The overall minority rate was 18.6 percent. Now that's the Government's.

The CHAIRMAN. Right.

Secretary CISNEROS. Which is—when people talk about the reason why FHA exists, there's a good differential there that explains—

Senator BOXER. But, Mr. Chairman, just to answer your question, in the Home Mortgage Disclosure Act of 1992, 2.6 percent of all mortgages were made to African-American borrower. Fannie Mae and Freddie Mac have less than the overall.

Secretary CISNEROS. Correct.

Senator SARBANES. By what amount?

Senator BOXER. 2.3 percent of Fannie Mae's and 1.7 percent of Freddie Mac's.

Senator SARBANES. One point, what?

Senator BOXER. 1.7 percent of Freddie Mac's comprised of loans made to African-Americans. I'm just saying it's worse than.

The CHAIRMAN. So you have this anomaly where FHA has the much higher percentage than the national profile.

Secretary CISNEROS. Better than double.

The CHAIRMAN. And the two Government-Sponsored Enterprises here have a somewhat lower than the national average level of participation. I think that is an interesting array and illustration and obviously, we need to look at that. But let me let you continue.

Secretary CISNEROS. We also asked the GSE's to provide HUD with information about the distribution of their mortgage purchases by minority percentage of census tract. The data shows that the percentage of mortgages purchased by the GSE's declines rapidly as the minority concentration of a census tract increases.

Questions have been raised about whether Fannie Mae and Freddie Mac's guidelines discourage lending in areas that have a high concentration of minority citizens. Both Fannie and Freddie report that they've undertaken a number of steps in recent years to increase guideline flexibility without compromising the safety and soundness of the enterprises.

HUD will begin a review of the underwriting and appraisal guidelines of these enterprises this year to ensure that there is no discriminatory impact. While HUD recognizes that Fannie Mae and Freddie Mac do not originate loans, we begin that they can play a critical leadership role in assisting the lending industry to make more loans to minorities.

We feel very strongly that the enterprise issue ensure that minorities have equal access to the benefits of the secondary market and we'll monitor closely the efforts of Fannie Mae and Freddie Mac to extend the benefits of their activities to all Americans.

Again, let me note our concern about specifically, Freddie Mac's level of business in the multifamily area. We had an exchange about that here already.

In 1993, Freddie Mac purchased \$191 million of multifamily mortgages. In contrast, Fannie Mae purchased \$4.6 billion of multifamily mortgages. It's the 25 ratio that I talked about earlier.

While we understand Freddie Mac's difficulties with its apartment portfolio in the late 1980's, I described earlier the suspension activity in 1990, we're concerned that Freddie Mac's re-entry into the market has been particularly slow. The critical need for affordable rental housing demands that all our institutions, Freddie Mac included, expand its multifamily financing activity.

As I said earlier, for many families, home ownership is not an option at this time, and to pay 70 percent of their family budgets for housing when the guideline traditionally is something on the order of 25 or 30 percent that ought to be allocated out of a monthly family budget for housing, underscores the need for affordable multifamily housing.

Mr. Chairman, let me spend just a couple of moments addressing the future GSE goals.

The low- and moderate-income goals have been set at 30 percent for 1994. This was set by congressional action, the 1992 Act. It does not allow setting a low- and moderate-goal in excess of 30 percent for 1994. Because HUD estimated that both enterprises, low- and moderate-income purchases were less than 30 percent of total dwelling units financed in 1992.

So there was an approach to how the goals would be set in this transitional period. It was, in effect, off of a base of what they had been doing.

Our concern here is that almost half of the single-family units under the low- and moderate-income goals for both GSE's were for borrowers with income between 80 and 100 percent of median, as opposed to low-income borrowers, defined as having income as less than 80 percent of median.

These data raise the question of whether subgoals should be set for low-income families and very low-income families. We do have this authority under the 1992 Act, but those subgoals are not enforceable under the 1992 Act.

As for central-cities, the goal for 1994 has been set at the 30-percent target levels, again established in the 1992 Act. Reaching these goals will require both enterprises to buy more central-city mortgages by tapping new categories of borrowers. This will require both GSE's, Freddie Mac in particular, to expand their multifamily purchases in central-city areas.

HUD is now conducting researching and consulting with housing experts and will meet with the GSE's, as well as obtain public comments to develop a framework for setting the geographic goals for under-served areas for 1995 and beyond. We want to identify particularly inner-city and rural areas with poor access to mortgage credit.

The special affordable goals, as established by the 1992 Act, will be set at not less than 1 percent of the dollar amount of the GSE's mortgage purchases for the previous year. This is a minimum. Higher percentages may be appropriate.

Mr. Chairman, let me just say a quick word about how we're meeting these new regulatory responsibilities under the GSE Act at HUD. Congress has been critical, and rightly so, of HUD's past performance in regulating the GSE's. I want you to know we're taking this responsibility very seriously.

Mr. Retsinas, in his position as FHA Commissioner, Assistant Secretary for Housing, has the responsibility for our GSE oversight, our new capital efforts and, additionally, responsibility for the Federal Home Finance Board.

Nic Retsinas is in charge of this whole range of new HUD responsibilities. A staff of seven persons within HUD is working on regulatory issues, which include establishing and monitoring the goals, conducting research on the secondary market, analyzing data on the GSE's performance, establishing and monitoring fair lending goals, and approving their new programs.

I can also tell you that there's some reasons to be encouraged. Fannie Mae, in particular, recently announced a targeted \$1 trillion effort in financing by the end of the decade for affordable housing, which represents \$150 billion of new financing.

We applaud the changes they have made in organizational procedures and new methods that they're researching in order to reach this goal. It goes beyond numbers. It goes to touching people's lives.

We're working closely with them on a whole series of new underwriting standards, combining alternative methods of underwriting, other practices, home ownership counseling, and in all of these areas, we'll be pressing to the maximum extent that we can for new methods, new technologies applied to these important goals.

Let me close my remarks just by saying once again, I think it's fair to say that whatever progress has been achieved over the course of the last year is almost 100 percent attributable to the strong position that Members of this Committee and the Congress have taken.

The fact that you drafted that Act and that it went into law in 1992, not only got attention of these enterprises, but put the Government in the appropriate position of monitoring and requiring performance.

This is an instance where, for not a single dollar of additional governmental expenditure, a new era has been set that reaches into the sophisticated, complex interworkings of the American housing finance system and will in due course produce massive improvements in the lives of the American people.

I commend you for that and look forward to implementing your legislative will as Secretary of Housing.

The CHAIRMAN. Well, thank you very much. I'm not going to use all my time right now because I want the others who have arrived to have a chance to make some opening comments here and get into this discussion. But I want to say two or three things.

First of all, I think we have impressive leadership at Freddie Mac and Fannie Mae. And so, I don't want my comments to be misunderstood in that regard, and I appreciate the professionalism at both institutions.

I think both institutions over the years have not done enough in this area that we're focused on today, and I think the data itself shows that.

We're changing those patterns and progress is being made, and I appreciate the efforts to bring about that change and that progress, but a good deal more needs to be done. One thing I'm going to have you do for the record, I want you to get for me an appropriate stock price for both companies, 1989-93. We can go back before that. I'm principally interested in those 5 years. And it can be either year-end numbers or average price during the years, what have you. An appropriate yardstick which will show, I think quite clearly, that these have been outstanding performing stocks.

These are stocks that are among the best performers. If you look at the Forbes list of percentage appreciation over the last 5 years, my guess would be they would both be in the top 100, would be my guess, because they have been able to be highly profitable in large measure off the unique position that they enjoy as a result of the special Government-granted authorities and advantages that come to them.

I hear private mortgage-lenders gripe all the time about the fact that they feel that they're at a distinct disadvantage just in terms of the playing field out there when they have to, in effect, compete with Freddie Mac or Fannie Mae.

In essence, they've been highly profitable organizations and they've given extraordinary returns to their common shareholders.

Now, not everybody in America is a shareholder in these organizations because not everybody has stock, and if they did, they wouldn't necessarily understand how valuable these particular companies have been from an ownership point of view. But they've been extraordinarily successful from a financial reward point of view.

The question is, in carrying out the public mission and the public responsibility, have they done as much and are they presently doing as much as they should do to help sort of crack apart this starvation of credit and mortgage availability into underserved areas, and particularly to minority communities.

I don't think that Freddie and Fannie should have percentages of mortgages to African-Americans and to Hispanics that are lower than the national averages of those mortgages. It should be higher. I don't say it should be as high as the FHA, which you've cited, but it ought to be somewhere in between.

The whole point of why the Government is loading in these special advantages is to, in a sense, create a kind of an equalitarianism in terms of access to mortgage credit out across the country that, in effect, touches everybody. And it ought not to touch the mi-

nority communities less than the average percentages of all lending taken as a whole. It ought to be more than that. As a single kind of macro-yardstick that everybody ought to understand, these organizations ought to be above the national averages and not below them.

Just the general hydraulics of how it ought to work ought to sort of give us that result. If we're not there, then I think you've got to tilt in the process toward these underserved areas because the great advantage that we've created through these public entities is not getting through in sufficient amount, in my view, to really help just make the system work.

I'm enough of a capitalist that I believe if you get capital into places where it needs to go, good things will happen. By the same token, if capital doesn't get there, you're going to get ruinous conditions over time. Not that that's a one-dimensional problem. It's not. But that adds as much to the downward spiral of circumstances, especially in inner cities, as anything I've seen.

And so, I think we ought to be setting our sights higher than these percentages. I think we ought to see this, and I'm frank to say, if that means that the profitability which has been extraordinarily high, is a little bit lower taken as a whole, if the returns to shareholders are not as spectacular as they have been, so be it. I'm not as much concerned about that as a trade-off as I am as to whether the public mission is, in fact, being met sufficiently out in the country to help create the social fabric that we want and to have the kind of living conditions and community conditions that we want for ourselves and that I think we ought to aspire to for the rest of our citizenry.

So that's my concern, and all of that's in the context of the fact that I think we have very competent people running these organizations.

But what's the purpose? What's the goal? If we tilt this thing too far in terms of maximizing shareholder value, with all of these special Government-conferred advantages, that's troubling to me and that ought not to be the way that the balance is structured here, at least in my view.

So, with that, let me call on my colleagues for any opening comments they want to make. Let me go first to Senator Bond, and then Senator Boxer. Senator Domenici has come in and he may have comments he wishes to make.

OPENING STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. Thank you very much, Mr. Chairman. I'm delighted you called this hearing. We're always glad to see the Secretary. I thank Secretary Cisneros for taking time from his busy schedule to testify before this Committee.

I think it's clear that Secretary Cisneros has raised some very serious questions about the GSE affordable housing goals which we established in the legislation. These questions deserve an answer. But I gather that prior to my arrival, Senator D'Amato raised the question that the people who can supply the answers aren't here. I am also concerned that we are hearing the questions, but we don't have an opportunity to hear the answers from Freddie Mac and Fannie Mae. I hope there will be an opportunity for them ei-

ther to submit comments and replies for the record, or there would be an opportunity for them to give their side of the story. As the famous commentator said, we need to get the rest of the story.

I have been advised by both of these entities that while they have not fully met their targets, which I find troubling, they have made progress and they are committed to meeting their affordable housing goals.

For example, I understand that Freddie Mac suspended its multifamily mortgage purchase program in the late fall, 1990, when the delinquencies in their multifamily mortgage program resulted in some cumulative losses of over a half-billion dollars. These losses were 17 times greater than the single-family rate, and while the multifamily loans represented only 3 percent of Freddie Mac's portfolio, it generated half of the total losses.

Moreover, since this is an entity that is supposed to be profitable, where they can spend the money and Congress does not have to provide the dollars up front, I think we ought to hear from Freddie Mac as to the conditions under which they operate, especially why they have not been able to achieve their affordable housing goals.

So, Mr. Chairman——

The CHAIRMAN. Would you just yield to me on that point?

Senator BOND. Sure.

The CHAIRMAN. We discussed that a little bit earlier before you arrived. I appreciate what you're saying. We fully intend to get those answers from them. But I would just make this point with respect to Freddie Mac. You're quite right that back in 1989, they had a problem in their multifamily lending, principally, as I understand it, in New York and Atlanta and they had these losses. They did not have a loss year taken as a whole. They were still very profitable that year.

But the issue today is, now that they've presumably cleaned up that mess, gotten rid of the incompetent people, they pay very good salaries, so they can fire people that don't perform well and they can hire people that do perform well.

However, today, they are now 25 times behind where Fannie Mae is. I figure it takes them some time to ramp up to do this job competently, except their competitor, if you can think of the two agencies as being competitors, one is managing to do this business quite effectively. And so, it becomes a little lame years after the fact to have the other say, well, we had a bad experience a few years ago. We got on top of the problem. We weeded out the bad people. And now we can't function effectively in this area up to the standards that others are doing.

I find that a weak argument. I don't think we impose an undue burden on them to say, if the other guys can do it, why can't you do it now? And I think they can do it and should do it. I don't think they'll necessarily do it, though, if they don't get a little encouragement.

Senator BOND. Mr. Chairman, I think you raise a very good question. I think we ought to get the answers from the people involved. I would not disagree with the question. I just am looking around for the people who might have the answers and I think that's a problem.

Before we draw any final conclusion, I strongly request that we, at least, give them a chance to make a statement.

The CHAIRMAN. If you'll just permit me one more time.

I agree with that. I thought where we should start is by taking what I consider to be the fairest arbiter here—namely, the Secretary of Housing and Urban Development, whose job it is to enforce and to see that these standards are complied with—to come in and give us an objective assessment of how they're doing. And on the strength of this, I fully intend to do exactly what you're suggesting, and that is push on to find out why we are where we are and how we get ourselves fully up to standard.

I would say, again, when you see this underperformance just generally on mortgages, and you look at how that plays back through the system and in our respective States, that's a very important question that's going to have to be answered in due course by both of them.

Senator BOND. Mr. Chairman, I totally agree. Can we set a time when we'll get that answer?

The CHAIRMAN. Well, let's see what comes out of today's hearing. We'll get it, I assure you of that.

Senator BOND. OK. Again, I think they're good questions. I would like to have the other side before we reach any conclusion on it. I think certainly you raise very good questions, as has the Secretary.

Thank you.

The CHAIRMAN. Senator Boxer.

OPENING STATEMENT OF SENATOR BARBARA BOXER

Senator BOXER. Thank you very much, Mr. Chairman. I agree that we should hear from them directly.

Mr. Chairman, I was also rather stunned, as you were, and others, certainly my colleague from Illinois was, at these numbers, at these percentages.

I recently had the privilege of addressing what's called the Greenlining Coalition. It's a group of citizens in northern California who are concerned about the lack of capital to minority-owned businesses, and also, mortgages. They're making the point that we have a mortgage disclosure act, the Home Mortgage Disclosure Act, which is very important, so that we can look at these numbers.

The CHAIRMAN. Right.

Senator BOXER. By God, it's terrific that we can. We don't have such a system for commercial loans. That's another subject.

But now that we have the numbers, and there I am, I'm speaking to not only the people who are advocating these loans, but very progressive bankers and people who want to help minorities get a piece of the American dream. And now I see a Government-sponsored program that is worse than what's going on in the outside world.

There's no excuse. Yes, I want them to come up and talk about it. But I didn't know that. I'll tell you, if a reporter had come up to me—you have some nerve coming here and telling private lenders what to do when your own Government-sponsored organizations are worse than their averages.

It's terribly embarrassing. It's wrong. It's upsetting. It's shocking. And it has to change. It just has to change. Otherwise, what's the point of what we're doing here?

I also would like in the question period to find out if you've given any thought to purchases of what the mortgage bankers call B&C loans, loans that are made to borrowers whose credit rating is less than outstanding. I've been informed by the private sector that that market would be lucrative for the GSE's and also increase access to home financing to lower-income persons. They're B&C loans. They're not highly rated, but how much do we do there? I don't think that we do too much there, if any at all.

I'd like to have the answer when we get to that point. Maybe now.

The CHAIRMAN. Maybe Mr. Retsinas can give a quick answer. Then I want to go to Senator Domenici and then back to Senator Sarbanes.

Senator BOXER. And that's basically my comment.

Mr. RETSINAS. Thank you, Senator. Just responding to your last question about the underwriting standards. The next set of regulations the Department will promulgate consistent with the authorizing legislation is fair lending guidelines. As part of those fair lending guidelines, we will ask for the opportunity to review the underwriting standards and to see to what extent they can be used to further promote fair lending.

As the Secretary noted, this was one of the initiatives that Fannie Mae announced, and their recent initiative is new kinds of underwriting standards. But we want to look very carefully at those underwriting standards to make sure where they're not just for the exceptional, anecdotal borrowers, but really, across the board.

There's a way to look at those guidelines in a way that will increase access to mortgage credit because it remains a top priority of our Administration, and I know of this Committee, also.

Senator BOXER. So, excuse me. Just so that I understand what you said. We don't buy these B&C loans today, but we're going to take a look at it?

Mr. RETSINAS. We are going to look at all—under the fair lending regulations that we'll be promulgating probably sometime this summer, and seeking comment and all the regulatory process, as part of that, we will be asking for the opportunity to review and comment on the underwriting guidelines of both organizations.

The purpose of that review is to ensure that they are both prudent, but also are able to increase access because we need to increase access to mortgage credit and make sure there are no unintended consequences of underwriting guidelines that keep out people when we need to bring people in.

Senator BOXER. So if anyone wanted to make comments, how could they make those?

Mr. RETSINAS. We will formally go through the Administrative Procedures Act and publish regulations for comment. We are in the process now of putting that together. It will be sometime, I would say, early summer, when the regulations will be published for comment.

Senator BOXER. Thank you.

Secretary CISNEROS. Senator, let me just say, we will take a specific note from this hearing and look at the so-called B&C loans in particular and see how they fit into this larger scheme.

Senator BOXER. Thank you. And I'm going to send you some. Mortgage bankers have contacted us about it, so I'll send you their comments.

Thank you very much, Mr. Secretary.

Secretary CISNEROS. Thank you.

The CHAIRMAN. Senator Domenici, do you have a comment you want to make here?

Senator DOMENICI. Did Senator Moseley-Braun—

The CHAIRMAN. Yes, she spoke.

Senator DOMENICI. She already has?

The CHAIRMAN. She, in a sense, had an opportunity to speak here a little bit earlier. I just wanted to give every Member a chance to make an opening statement that didn't get a chance.

OPENING STATEMENT OF SENATOR PETE V. DOMENICI

Senator DOMENICI. Yes. Sure. I'll do that. It won't take too long.

Mr. Chairman, and Mr. Secretary, I am really burdened by this hearing. First, I hope you can help us come up with all kinds of ways, new ways to try to get more financing for minorities, for housing, more assets and resources into inner cities.

But Fannie Mae and Freddie Mac are not programs. This is a business. It is the most successful funding of housing in the world. 1993, 5.3 million American homes got reasonable financing because these two entities can buy those loans from the banking institutions.

Now all we need, Mr. Chairman, is to have the U.S. Government come along and mess this program up. Frankly, when you've got a program, one in very few that the Government starts and says, take it over, that's working, what in the world would we want to undo it for?

All we have to do is take this successful program—if Americans want to know why they can buy houses, why they can get long-term financing, why it can be done quickly, why banks and S&L's are involved in other mortgage companies, it's because the secondary market has been created by these Government-chartered, now privately-owned companies.

And what are we doing? We're trying to say, let's do the same for small business loans. Not within your jurisdiction. But we're out here saying, the problem with small business is the banks have to carry their money, which they would have to do for all the houses in America if we didn't have these.

We're saying, let's do that for small business because secondary markets are a must. We're even trying to do it for commercial real estate. We've got it going through this Committee. We're trying to figure out a way for the Government to authorize the creation of a secondary market. This is the secondary market. And frankly, I am absolutely astounded that we would try to turn these into HUD programs.

Senator MOSELEY-BRAUN. Mr. Chairman?

Senator DOMENICI. Now if you want to fix this by telling them they have a different set of goals, let's have some hearings on it and let's have them in here and let's find out whether it will work.

Now, I'm for any new approaches for getting more money out of the asset system of America into housing. But I don't think we should quickly take a system that is the best in the world and working, and because it is, say we want it to do something else.

I stand ready to listen to some reasonable approaches to enhanced financing and I think, Mr. Secretary, you know that. In my particular case, I've been working on that in my State, in my home city, forever. I just say that we should be pretty cautious about these two GSE's in terms of turning them in a way that they won't work, where they have been eminently successful.

Thanks, Mr. Chairman.

The CHAIRMAN. Let me just say, I know that Senator Moseley-Braun wants to make a comment and I'm going to call on her next.

The difference between what we're trying to do with small business loan securitization and the GSE's is that that's all done in the private sector. It's all done in that fashion.

I cited earlier before you had arrived this morning that this is what the Government now grants to the GSE's, and I'm for this, as you say you are. They are exempt from State and local income taxes. They each have a \$2.25 billion line of credit with the Treasury. Their securities are exempt from SEC registration.

Now just imagine if you're trying to compete with these guys and you've got to sort of jump these hurdles that we've taken out of the way for them. Their securities are exempt from SEC registration and are eligible for purchase by Federal Reserve banks and by nationally chartered banks.

Their securities are eligible to be used as collateral by depository institutions for public deposits of the Federal Government and most State and local governments. The investment community perceives the liabilities of Freddie Mac and Fannie Mae, which amount to more than \$1 trillion, to be implicitly guaranteed by the Federal Government.

Now, those are tremendous business advantages. We don't give them to anybody else. And you're quite right, some of that value radiates out to the people that get mortgages. The question is, who gets the mortgages? Does Pete Domenici and Don Riegle get the mortgages or maybe our kids, and there's a kid out there or another buyer who may be an African-American or Hispanic who doesn't? It turns out their averages of loans to those groups are less than the averages that the private sector is now making in those areas.

That to me is astonishing because here you've got a Government-Sponsored Enterprise with major financial advantages built in for the very purpose of getting the mortgage credit out there, and they're underperforming among African-Americans and Hispanics what the private market can now do, who doesn't have any of these advantages. Now how do we explain that?

Senator DOMENICI. Well, Mr. Chairman, frankly—

The CHAIRMAN. How do we defend it? I don't think you defend that. I think that's wrong.

Senator DOMENICI. Well, I don't know how you can just categorically say this kind of thing is right or wrong. If you expect better performance from them in this area, then you ought to challenge them.

The CHAIRMAN. Well, we have.

Senator DOMENICI. But don't change the basic charter and try to make it less profitable. Do you think that if we didn't give them all these advantages, but said, here's two entities. You get out and be the secondary market, but you pay taxes. What do you think would happen? Don't you think they would pass that along and instead of the financing we're getting now for housing, millions of housing, it would be slightly less for the housing market?

The CHAIRMAN. I'm for them having these things. In fact, I've supported giving them to them and I think the organizations are generally well run, which I've said today. But there is not an adequate flow of the tremendous financial credit opportunity that they afford through to these underserved populations. That's a problem, and it's a problem that they need to fix.

And we shouldn't paper over it because we support these organizations. You know who's making the money here? It's whoever owns the stock in these organizations.

Now if you take a look at the investment companies around the United States, and Warren Buffet's one of the smartest guys in that business, among the major holdings in Berkshire Hathaway are the Government-Sponsored Enterprise because these have been phenomenal companies in terms of the stock appreciation over the last several years. In fact, they've been among the very best in the country.

Now, the issue is they're highly subsidized by all these Government-granted advantages that I've just cited. Now we've done that to achieve a public purpose. The public purpose is not to enrich the private investor. It's to get that credit out, as you say, to this broad mortgage market. But not just a part of it. We certainly don't want to have a lower percentage of loans going to African-Americans and Hispanics than the general market is able to do without any of these Government-granted advantages, for crying out loud.

I mean, wouldn't we want at least that performance?

Senator DOMENICI. Mr. Chairman, I think the issue is, if they are discriminating, that's normally what we worry about, unless we're talking about subsidizing the housing mortgage themselves.

If we have a portion of the population that needs our help, we do two things. We say qualify in the regular market and don't discriminate against them. And if they don't qualify or need special help, we subsidize. If they are discriminating, you have a great point and we ought to find out if they are.

The CHAIRMAN. But doesn't it stand to reason that their percentages ought to be at least up to what the private sector is now doing?

Senator DOMENICI. I don't know their business well enough. I don't know if they're in the business of generalized financing of housing, or whether they work with banks and other institutions with reference to taking the loans their making from them.

I don't know that kind of ground rule, and I don't know whether we know, either.

Secretary CISNEROS. Mr. Chairman, if I may just have a quick word in here.

The CHAIRMAN. The Secretary wants to speak. Senator Moseley-Braun has been waiting.

Secretary CISNEROS. I think the Senator has been waiting. I'll defer. I'll defer to the Senator.

Senator MOSELEY-BRAUN. I'm glad I had to wait. That way I was able to calm down. The hot blood that I have, it was about to—I don't know. Senator Domenici, I'm beginning to think that maybe I'm the capitalist in this room because, quite frankly, I'm not convinced that we do need to prop up these kinds of institutions if they're going to find it impossible to spread the benefit of their subsidy and support to all America. That, it seems to me, is the real issue here.

If the issue, if this is just a business, to do business in the secondary mortgage market, then let them compete like everybody else. Let them have the same standards and the same SEC filing and disclosure responsibilities as everybody else. Don't put them in a position where they have a competitive advantage over the private sector and then turn around and say, well, we don't want the Government involved in telling them what to do with regard to the advantages they've received.

That doesn't make any sense to me. And these statistics are appalling. These numbers are terrible. And I dare say that it has never been shown that by doing business, by supporting the development of low- and moderate-income housing with minorities in inner-city communities, that that is anything but good business.

I think it's very good business precisely because it means that the Secretary here does not have to turn to other resources and other programs to provide the kind of, quote, subsidies and support in public housing and the like when people are given an opportunity to be homeowners.

If we are concerned about private ownership of property, giving people a share of the pie, a piece of the American dream, then we absolutely, positively have to see to it that where Government subsidies are given to institutions like Fannie Mae and Freddie Mac, that those subsidies and those supports are passed along to the public and not the private sector.

We are not in the business of making investors rich with 24 percent returns on their investment. We're in the business, I think, of providing housing opportunities and expanding housing opportunities. And what we see here in these statistics indicate a confusion or a failure to communicate that message to the leadership of these organizations.

I, Mr. Chairman, would very much like, and I join Senator Domenici and Senator D'Amato and the others who have called for the leadership of these institutions to come to this Committee and explain to us how this happened. I'm looking at one of the annual statements—I think I gave it up to somebody—I had one of the annual statements, I might have been reading an annual statement for Xerox. There was no sense of mission at all, no sense that somehow or another, the reason that you have all of these benefits has anything to do with the public welfare and the public good.

And it seems to me that that confusion—I know that's not a confusion. It's almost unfortunate that the Secretary has to stand here and catch the flak for all of this because he is so committed. But I think that the leadership of these institutions ought to account for this.

Secretary CISNEROS. Mr. Chairman, if I may.

The CHAIRMAN. Senator Sarbanes has been waiting to get into this.

OPENING STATEMENT OF SENATOR PAUL S. SARBANES

Senator SARBANES. Mr. Chairman, I very much want to get into it.

This issue was settled in the 1992 Act which we passed. We worked hard on this issue in this Committee at that time. We were very concerned with the safety and soundness of the GSE's. We also made the judgment at the time that, since the GSE's receive significant benefits, in return, they had to, in effect, carry some responsibility for some public purposes.

We put these requirements in—in terms of low- and moderate-income housing goals, special affordable housing goals, and central cities and rural area goals.

We made that judgment.

Now although I have trouble with the 2.3 percent figure for Fannie Mae to African-Americans, we don't have earlier figures. Suppose the earlier figure was 1.9 percent and the earlier figure before that was 1.5 percent. And the earlier figure before that was 1.2 percent.

The real question is, it seems to me: Are they now responding to the responsibilities that have been placed upon them in order not only to meet the goals that were in the law, but hopefully, to move beyond them.

Now, there are some indications that they're trying. Are they trying hard enough? I don't know. I thought we'd sort of examine that. If they're making a good, strong effort, one ought to welcome that and encourage them to continue.

If they're not making a good, strong effort, then I guess you beat up on them. The comparisons on the figures—they only make the point that the GSE's ought to do better, but the figures don't determine whether they are, in fact, doing better because you don't have the earlier figures on the basis of which to make the comparison.

In fact, I note that apparently the low- and moderate-income activity has been better than required by the goals. So they're exceeding their goals.

The CHAIRMAN. In that category.

Senator SARBANES. In that particular category, but that's important. We went through all of this. We said, look, they're getting some benefits and they need to respond. They apparently are responding. Now, are they responding sufficiently? Well, that's an open question. But I'm not sure that examining that question ought to draw us back into a kind of debate that goes to the fundamentals.

We had that debate and settled it in the law, as I perceive it, when we passed the 1992 Act. And it seems to me now, we have to ask some very tough questions. I'm concerned about the levels

of lending to African-Americans compared with the general level. Apparently, we don't have figures for earlier years.

Secretary CISNEROS. We can get them, I'm sure.

Senator SARBANES. Well, are they doing better? Are they beginning to improve their performance?

We obviously were not satisfied with the earlier performance or we wouldn't have passed the law that required affordable housing goals. That was part of the genesis of that legislation. That's why we put it into place. So, clearly, we already made the judgment that the previous performance was inadequate. They needed to do better.

The real question now is are they doing better and at what pace? And what is the outlook into the future?

It seems to me a lot of this discussion, in a sense, is the same type of discussion that we had when we passed the 1992 Act. We're sort of beyond that, it seems to me, or ought to be beyond it, and we really need to figure out now, how do they meet the goals, or exceed the goals? How does the Department interact with them in order to achieve that objective?

Secretary CISNEROS. Mr. Chairman, if I may.

The CHAIRMAN. Mr. Secretary.

Secretary CISNEROS. First of all, I wanted to comment on this notion of change direction, improvement, the dynamic involved here.

On the question of the race data, they were never required to collect it before 1993, and therefore, it doesn't exist in any form that we have access to at this time. I can pursue that question. But the fact is, the first numbers we have are the numbers that are here.

Senator SARBANES. Now what's your explanation for the discrepancy? I take it that the FHA percentage that you gave us, which was well above the 2.6 percent, is what has lifted the 2.6 percent up. Is the 2.3 percent level less than the private sector does?

Secretary CISNEROS. Yes, sir, it is, because the private sector number is 2.6 percent.

Senator SARBANES. Counting the FHA influence?

Secretary CISNEROS. No, I wouldn't think that the FHA number is in there. It is in the 2.6 percent? All right. So the FHA number would lift it.

Senator SARBANES. Well, what is the number without the FHA?

Secretary CISNEROS. I don't have that number. I can get that for you. All we have are some aggregate national data, which is 2.6 percent. We can recalculate that.

Senator SARBANES. But the fact then remains, if the 2.6 percent includes the FHA, which was at, what, 9 point something?

Mr. RETSINAS. 7.4 percent.

Secretary CISNEROS. 7.4 percent.

Senator SARBANES. 7.4 percent. The FHA lifted the average.

Secretary CISNEROS. Yes.

Senator SARBANES. See, the assertion was made here earlier that the GSE's are doing worse than the commercial sector. But they may not be doing worse than the commercial sector without the FHA.

Secretary CISNEROS. We can get that recalculation.

Senator SARBANES. The FHA may take that level up. That doesn't mean they shouldn't do better. I agree with the Chairman.

They ought to do better. I'm concerned about these figures and I think they ought to do better, but I think they need some fairly tough analysis as to what the cause is.

Secretary CISNEROS. I don't want to get hung up on this issue, but even if 2.6 percent is the number in the marketplace, part of the problem is the marketplace hasn't been doing well enough by African-Americans. And the national percentage of African-Americans in the American population is over 10 percent.

So however way we debate this, 2.3 percent or 2.6 percent, as against 10 percent of African-Americans in the population, is way off the mark. So there's a big job to be done there.

But let me just speak to this question of whether or not they're doing better or nor.

Senator DOMENICI. Before you do, can I just say, Senator with reference to FHA, I assume in your comments, you're making the point that FHA has a different mission. FHA's mission is not the same mission in terms of the kind of generalized housing that Freddie Mac and Fannie Mae have.

Senator SARBANES. But I don't think the GSE's mission—the GSE's have a mission. I think we decided in the 1992 Act that they have a mission.

The question is, how are they discharging that mission and what ought to be done. So I don't equate them with simply a private-sector performer because they get certain important benefits that are given to them that enhance their ability to function. And the judgment was made that because of that, they needed to be responsive on the affordable housing issue.

Secretary CISNEROS. Mr. Chairman, I want to give you some hope because I think that, in fact, many of the concerns addressed around the table are becoming addressed.

We're going in the right direction. There is reason to be encouraged. Now how do I come to that conclusion? These are the low-and moderate-numbers. If you'll permit me for just 2 seconds to walk over here.

The CHAIRMAN. Can you pull that chart around a little bit more because I don't think it can be seen clearly on both sides here?

Secretary CISNEROS. Fannie Mae went from this level of 28 percent on low- and moderate-income in 1992 to something approaching 36 percent. Did they sacrifice their profitability in doing it? No. Have they damaged the company's prospects in any way? No. Are they less attractive on Wall Street and in the marketplace? No. Have they changed anything about them that makes them an attractive, well-managed company? No. They just figured out how to do it because you passed the legislation that encouraged them to do it.

Now, can they do better than this? Yes, they can. Fannie Mae just made an announcement of a trillion dollars. It's a number that boggles the imagination—a thousand billions of dollars between now and the end of the century, which is 6 years from now, maybe 7 years, depending on how they calculate that, of money that they will bring to the marketplace, \$140 million more by an 11-point program that they put in place to improve these numbers.

We're looking at 10 million new homeowners as a result of the things they plan to do. What do they plan to do? Simple things like

changing their technology so that it's available to brokers. The brokers have the full information that's available on their desks.

Creating a new network of offices, 25 offices around the country with an emphasis on low- and moderate-, on minority ownership, and so forth.

So they're going in the right direction.

Do the same numbers apply to Freddie? Well, they're not as good in terms of the performance. I don't want to in any way apologize for them because I think they can do a lot better. They must do a lot better. But they went from 24 percent to something approaching just under 30 percent in a year.

Can they do it? Yes, they can do it and they can do better.

So I guess my point is no one is suggesting that we change the fundamental charter or franchise. That hasn't even been discussed. The law does provide for some sanctions, money penalties and so forth if they don't reach their goals. But I don't think we in any way make them into a, quote, Government program or impose on them unduly by urging them to meet these important goals which the Congress felt important and the President signed into law in 1992.

So, again, my point is there are ways that they can do a better job. Now let me just go out on a limb here and say that I try to be scrupulously objective in my assessments. But if Fannie can do these numbers, then Freddie can do these numbers as well.

The CHAIRMAN. Isn't that just as true for the other charts that go into the other categories?

Secretary CISNEROS. Yes. And to be honest with you, the kind of energy that we have seen in the last, say, 8 months from the leadership of Fannie Mae in putting forward this 11-point program and stretching themselves to a trillion dollars' worth of commitment, we've not seen at the other institutions. And I feel that I have a responsibility to report that to you as the people who wrote the laws. But are we changing these in any fundamental way, playing with their charter, affecting their ability to be successful businesses? No.

Can we press them harder because they are governmentally sponsored institutions and have a special role in the American marketplace? Yes, we can. Tens of millions of Americans' lives can be touched.

Senator SARBANES. Well, actually, the fact is if you press them, they may be more profitable.

I had an interesting meeting with the president of the Mortgage Bankers Association, who is in effect trying to get his people to be more sensitive and recognize that there is a market there that people have been staying away from that is a profitable market.

We ought to recognize that there is, in effect, for them money to be made by responding to this need. I was struck when we did those hearings on the redlining and the fleet and so forth, of the people who came to testify who were just—they were putting every cent—they had these overpriced mortgages. They really had been—and we passed legislation to try to do something about that. But they were just bending over backward to meet the requirements. It was incredible.

These are very low-income people, but they'd taken on this burden and they were trying to meet it. There is some of that attitude in there.

The lenders need to recognize that they can go into that market and they're not going to have the kind of—if they know how they're doing their business, they've got to sensitize their people and so forth and do some counseling and so forth. They can make money at the same time that they really are opening up housing opportunities to a sector of our population that's been heretofore denied.

The CHAIRMAN. I think it was useful for you to use that illustration. I also think, though, that you should take the category where the shortfall is the greatest and where we're behind the goals.

I'm not sure which chart you want to use, but I would just ask you to do that now and I want you to illuminate where the gap is the greatest in terms of what the standard was and what's in fact happened, and have you comment on that in terms of how we—

Secretary CISNEROS. Let me just quickly go through all of them where there are shortfalls.

This is the Fannie and Freddie shortfalls on central city numbers. You see they improve, but not nearly as much as they did in the other category. They were short of the 1993 goals and will be dramatically short of the 1990–94 goal, present trends continued, but present trends are not continuing in the case of Fannie Mae.

I have every expectation, given this new program they put in place, which includes counseling and many other things, that they will come closer to meeting their goal. Freddie is farther off on this point. We gave them a lower goal because they were farther off. In an effort to try to be reasonable, we see that the Fannie goal was 28 percent in 1993. The Freddie goal—you want to point to that? It's right there [indicating]. This one, equivalent goal, was 26 percent. Because they were starting farther back, we wanted to give them some sense of reaching the goal, not making it so unreachable.

The CHAIRMAN. Right.

Secretary CISNEROS. And they fell short. Twenty-two percent in 1992. Twenty-four-something percent in 1993. Now we've brought them to 30 percent, same place, 30 percent for the next year.

The CHAIRMAN. Do the two agencies work together? In other words, where Fannie Mae has got a stronger track record and is further out front and has institutionalized the ability to perform at a higher rate in one category, is there enough willingness to share back and forth, or is there an institutional propriety where—

Secretary CISNEROS. No, they're separate institutions.

The CHAIRMAN. I know they're separate institutions, but—

Secretary CISNEROS. They behave separately.

The CHAIRMAN. Pardon?

Secretary CISNEROS. The answer is no.

The CHAIRMAN. OK. So they don't work together as they might in order to try to transfer this know-how and capability.

Secretary CISNEROS. No, they're very different organizationally, sort of culturally, and so forth. Very different, and regard themselves as competitors.

The CHAIRMAN. It's interesting that you've had this differentiation in the goals in 1993. In other words, you were fine-tuning to

take account of what you thought was the starting capability. Now you've ratcheted up the goals and they're comparable for 1994. And so, you're asking Freddie Mac to sort of come up that learning curve and that performance curve faster.

Secretary CISNEROS. Right. What we've said to them is this. Look, we understand you are behind this far. We're not going to really penalize you. We don't want you to look bad in the sense of being unreasonable, although we want to set the barrier high enough that you should try to meet it.

Well, they closed some distance, but not enough to meet that goal. Then we said, but by the following year, you ought to be in shape.

Senator DOMENICI. I thought, Mr. Secretary, that the goal for Freddie Mac was 26 percent.

Secretary CISNEROS. It was, 26 percent.

Senator DOMENICI. 1992 is the lower one. And they came up from 22 percent in 1992.

Secretary CISNEROS. Right.

Senator DOMENICI. So they're moving.

Secretary CISNEROS. They're moving in the right direction. It can be done.

Now, one could argue that we should have maybe given them another year's grace and put them at the half-way point and said 28 percent should be their goal. But, frankly, Fannie was saying to us at the same time, if we can do it, they can do it. They're competitors. Why do they get a different standard in the same marketplace?

The CHAIRMAN. Right. Isn't that a fair question?

Secretary CISNEROS. Sure, it's a fair question. So what we did was we said, well, we'll give them a break for a year in the sense of a lower goal, but then, by the following year, they need to be functioning at that same level. And frankly, the answer is going to lie in how they do in the multifamily area. They can make dramatic jumps if they get back into the multifamily area.

The CHAIRMAN. Are these unreasonably high goals that you're setting? Are we asking them to do what they really shouldn't be expected to do or don't have the muscle to do, or the brain power to do?

Secretary CISNEROS. They can do it.

The CHAIRMAN. They can do it. So it's more a matter of deciding to do it and really sort of getting the strategy in mind.

Secretary CISNEROS. I'm very impressed. Again, I don't want to be sort of unfair and I have no predelictions one way or the other. I meet with both of the CEO's and so forth. But I've got to tell you, what they've done at Fannie Mae in the last, say, 8 months, setting out a goal. They said, we're going to do \$1 trillion worth of business, \$140 million more than we would do on a straight-line projection, present trends extrapolation.

An 11-point program of counseling, of offices around the country, of new relationships with business, with technology applied. Freddie can do the same. And ought to.

Senator DOMENICI. Can I ask a question, Mr. Chairman?

The CHAIRMAN. Sure.

Senator DOMENICI. What's the principal way that they influence the lenders? These are secondary-market companies, so they buy the mortgages that have been loaned, the notes and mortgages that have been loaned by lending institutions.

Secretary CISNEROS. I think it's everything from training relationships with lenders, primary lenders, to, and perhaps most importantly, defining what are acceptable mortgage instruments and standards so that the primary lenders feel more comfortable that they will be behind them and buy those mortgages.

I would say more than anything else, it's those standards, so that the primary lenders feel if they make that loan to that low-income person, Fannie and Freddie's going to stand behind them, buy the mortgage, and take them out of it. In other words, they don't want to get stuck with the paper. They don't want to be in the position of lending in a way that the secondary mortgage will not buy them out of it. Would you say that's the primary?

Mr. RETSINAS. Very specifically, the primary instrument is the setting of the underwriting standards. That is, as the Secretary said, the terms under which loans would be made that then are eligible for purchase by the secondary market is the setting of those terms, it's the definition.

Secretary CISNEROS. And they find comfort. The secondary market itself finds comfort in the new standards by the other things that they do. In other words, if they can match the new standard of counseling, a new standard of technology that makes the information available, they aren't really giving anything up by relaxing the standards because they have hedged, if you will, for themselves some assistance that wasn't there otherwise.

That's why I say, it's not something that's going to put them in business jeopardy. It's just going the extra mile to do what an institution that's this important to the market should do.

The CHAIRMAN. And I think, if you do the math, I've asked the staff to do the math, on this question of if you factor out the FHA percentage, Paul and Pete, in terms of what the national averages are, I think you'll find that the averages are still below for the GSE's what they are in the private marketplace.

I think part of what you have happening here, these are carefully run businesses, and I think—not that they've creamed the market, but they've tended to aim at the market which is a nice, solid, secure market, and to stretch out and to send the signals that the borrowers who are maybe in the zone that have had a hard time getting loans are now part of the acceptable market and the target market, it is a change. And it's a healthy change. It's a good change.

It's what America's about, for crying out loud.

If you look at this Committee, most of us who are here have come from circumstances where, if the game were kind of rigged against outsiders or people who would have a hard time sort of cutting against the grain, half of us wouldn't be here. And the same is true in the financial world.

I want to just convey at least one Member's expectation. I think if Fannie Mae can come up with an 11-point program or a 9-point program to get the trillion dollars—

Secretary CISNEROS. Let me make sure you get copies of that. It's very impressive.

The CHAIRMAN. No, I understand, and I've read about it. We will certainly do that. But what may be even more interesting, Senator Domenici, is because these two entities are competitors, I want to hear about the Freddie Mac program. I appreciate this difference in culture, but there comes a point at which that's a little sort of overbearing.

I want to find out—maybe they can do with a 5-point program. If they've got different flourishes and bells and whistles, so much the better. But I don't want to see a situation where Fannie Mae figures out a way that they can get the job done and Freddie Mac just can't figure it out.

I'm quite happy to have them figure it out a different way if these cultural differences require it being different. But when they come in, I want them to come in with how they're going to take and meet these goals because we have not gone through the rest of the charts where the shortfalls are, including in the multifamily area.

The fact that they bungled the multifamily job in the past, and Fannie Mae didn't, is no excuse for nonperformance today. That's why you change your executive team. You change your operation. You get up to snuff. They shouldn't be ½st in performance of what Freddie Mac is in multifamily.

Secretary CISNEROS. Of Fannie Mae.

The CHAIRMAN. Pardon?

Secretary CISNEROS. Of Fannie Mae.

The CHAIRMAN. Yes, of what Fannie Mae is. That's just crazy. That's not acceptable. And so, the reason you pay big salaries to CEO's in multiples of hundreds of thousands of dollars is if they've got a competitor organization that's doing that much better than they are in multifamily, then you have to have your executive team show that it can perform just as well.

Otherwise—I don't want to hear all the excuses because they don't wash. They just don't wash. That's a gap that needs to be filled in. So that's one of the things that we'll be asking Freddie Mac when they come.

Senator SARBANES. Can we have an explanation of that chart, too, Mr. Chairman? I think that's the one that's left, isn't it?

Secretary CISNEROS. Yes, sir. What this represents is Freddie Mac's decision to withdraw from the multifamily market in 1990, following some very difficult experiences that they had in the New York City and Atlanta area. Basically, they withdrew from multifamily purchases of mortgages, and only decided to get back into it in December 1993, knowing that they would never be able to meet the goals that the Congress had set absent participation in the multifamily market.

They made some changes to their previous procedures, appraisal procedures, underwriting procedures, which got them in trouble in those two markets. But clearly, they've got to be in the marketplace and they're working their way back in, but it needs to be a fuller commitment.

Senator DOMENICI. Mr. Chairman?

The CHAIRMAN. It's astonishing. You see, that's exactly why we're having the hearing. If everything was fine and dandy, we wouldn't have the hearing. We could be talking about something else today. We're talking about the hearing because there's been a historic shortfall. We put the standards into the law. We've seen improvements since. But it's uneven improvement. In some areas, they've met the goals. In other areas, they're short of the goals and you have some very severe anomalies.

Here's an anomaly. You just heard another anomaly with respect to Fannie Mae having come forward with a program through the end of the century to really make a difference.

Freddie Mac hasn't yet devised a comparable program, but I trust they've got one that they're developing. I expect them to. We'll ask them to come in and present it. But it won't be sufficient to say, well, they can't figure out how to do it. That's nonsense. That's why they get paid a lot of money, is to figure out how the hell to do it.

Senator DOMENICI. Mr. Chairman, let me just make a couple of points.

First, Mr. Secretary, I appreciate your explanation. Thank you so much.

Frankly, I don't think we ought to spend a lot of time trying to find out whether Fannie Mae is lending money in a manner inconsistent with the market on single-family dwellings because I think what we're going to find is that you have to change the private sector—you have to change the lender mix that the banks and S&L's and mortgage companies are making, and they're not going to change that unless they are pushed by a Fannie Mae with new guidelines.

So what's going to happen is you're going to find that the market is no better nor any worse for Fannie Mae versus the private sector because they're both doing the same identical loans.

They're making the loans so that they will be bought by Fannie Mae. So they're going to be pretty close to the same. There's not going to be a private-sector market disparity that is very large—is that not right?—as compared with how Fannie Mae's money is allocated.

Secretary CISNEROS. Yes, sir. But—

Senator DOMENICI. Except on multiple-dwellings, we have a problem, on apartments.

Secretary CISNEROS. But I was going to say, but the actions that you have taken in this Committee that urges the secondary market to change some of their standards in order to meet the goals dramatically changes what happens out in the primary market. In other words, it has a multiplier effect that is tremendous.

Senator DOMENICI. So I only make the point that our good friend from Illinois indicated we might be even turning her into a capitalist. Maybe she's more capitalist than a Republican, whatever you said, because the private sector is doing a better job at lending in this area than Fannie Mae.

The truth of the matter is they are absolute partners and it's almost a mix that matches. I would suggest—

Senator MOSELEY-BRAUN. Will the Senator yield?

I guess my only point is that even if there is a match and we can't figure out which comes first, the chicken or the egg in this situation, the fact that it's a private-sector activity versus public-sector activity, if the public sector drives the private sector or the other way around, the fact that these institutions, these GSE's, have such fire power given them by legislation, by Congress, by our work, we've given them a competitive advantage in what would otherwise be a private market in order to accomplish such goals.

And so, to even talk about their activity in the same vein that we do private-sector actors who are in the secondary market who don't have all of these benefits, who have to file with the SEC and all these other things—

The CHAIRMAN. Pay taxes.

Senator MOSELEY-BRAUN. Pay tax. It really almost becomes, if you will, talking about apples and oranges because we've created a distortion in the market, is what I'm trying to get at. We have created the distortion in the market and the distortion that we created in the market was supposed to create a certain set of results.

Those results haven't happened and that's the concern, and that's why this is so shocking to me because, certainly, without the distortion in the market—if the private sector can do as well, then why do we need these people?

I'm sorry. That's a rhetorical question.

Senator DOMENICI. I don't want to go around on this, but the private sector wouldn't do very well if we didn't have Fannie Mae around. That's the point.

Senator MOSELEY-BRAUN. But they can't discriminate, either.

Senator DOMENICI. Fannie Mae is the source of what the private sector does. Let me go to my next point.

Mr. Chairman, I think that all of us know that there has been a very different profitability situation. Fannie Mae has made a lot of money and Freddie Mac's been much less of a success story and they lost a lot of money in multiple dwellings, from what I read.

I think it would behoove us, if you have the time, that we ask them in due course to come up here and tell us what they're doing. If the Secretary is impressed with Fannie Mae's 11 points and their future commitments, I think it would behoove us to get them up here and talk about it. And the same with the one that's not doing as well. So I would hope that we could do that at some point.

The CHAIRMAN. Well, I'm going to take that under advisement because I want to follow up one way or another to get the answers to these questions. I would not want to call Freddie Mac in here until they've got a plan comparable to Fannie Mae's plan. They can call it anything they want. They can have 5 points, 50 points, and the dollars can be different, but it's got to be aimed in the same direction.

Freddie Mac, interestingly, has been profitable for more than 20 straight years, I'm told. It was Fannie Mae that actually had a problem at one point in terms of their overall earnings. But Freddie Mac's done quite well.

I have high regard for the two leaders that run both of them. Leland Brenzell and Jim Johnson I think are both heads-up operators. So I've said several times today that I appreciate the leadership they give. They've got to get some guidance from us. They're

not just in this business to enrich shareholders. And if for any minute on any given day, anybody in the high command in either place loses track and thinks that that's the case, then they're off base because that's not what this is all about.

These are direct competitors to the private sectors. Yes, they're in partnership, but the fact that they don't pay State and local taxes and they don't have to register with the SEC and they've got the line of credit and the implicit Federal guarantee and all the other things, are very, very valuable business franchise items.

That's why people want these jobs of running as CEO's of these organizations. These are not jobs where you have to go out and beat the bushes to find people that want to take these jobs. These are very, very good jobs and they pay a lot because they're highly profitable organizations.

At the same time they can be profitable and they can help lift America, not just America that's white and may look like the majority of the population, but the rest of the country as well. That's why they're Government-Sponsored Enterprises.

They're not Government-Sponsored Enterprises for part of the American public. They're Government-Sponsored Enterprises for the whole American public. And that's an area where there's been a shortfall. And that has to be closed. We're making some progress in closing it, but we've got further to go and we're going to stay on that track until we get to where we need to be. And we're not there yet.

Secretary CISNEROS. Mr. Chairman, I might just say, on your last point, in a conversation with Chairman Greenspan of the Federal Reserve, he indicated to me that he felt the greatest marginal improvement in the economic recovery, economic circumstances in the country, levels of production and so forth, could occur if people who now are in a condition where housing is unaffordable to them, or where ownership is unavailable to them, can be gotten there.

The net bump, the treasure trove of economic potential that is there in that group to the American economy generally is bigger than any other single action we can take.

The CHAIRMAN. And you know, the last major item in the tax code—I speak as a Member of the Finance Committee—that's out there is a universal sort of tax advantage, is the mortgage deduction on home mortgage interest. One of the few ways that people in this country can sort of get ahead from a capital accumulation point of view is by buying a home, and by buying a home and accumulating the equity and protecting the value of the house and the property. But in addition to that, to have the tax write-off of the mortgage interest deduction.

That's one of the great—it's like public education. It's one of the great equalitarian opportunities that's left in the country and there aren't that many of them. And so, home ownership is favored through the tax code in a different way. And I want people who are trying to get up the economic ladder to be able to have advantage to get to home ownership in and of itself, but also because it's one of the few tax advantaged investments that's available to the rank and file citizen.

Most of the citizens of the country can't afford to buy tax-exempt Government bonds, for example, which can be a very valuable in-

vestment if you're in a high tax bracket. But to the person in a lower tax bracket, the mortgage interest deduction is one of the few ways in which people can in fact really get ahead of the game and accumulate a capital position so that they can own something at the end of a lifetime of work and maybe have some capital there so that they can help their kids go on to school.

That's been the whole story of American progress over the generations. But when you see who's been left behind, in many cases, it's been the people who've not been able to get their hands on any capital. The Senator from Illinois knows about that. The Senator from Maryland knows about it. And I sure know about it, and the Secretary knows about it. That's what we're trying to change. The American dream means something when it's there for everybody and not just for some.

We thank you very much for your testimony today. The Committee stands in recess.

Secretary CISNEROS. Thank you, sir.

[Whereupon, at 12:07 p.m., the Committee was recessed.]

[Prepared statements and response to written questions follow:]

PREPARED STATEMENT OF SENATOR ALFONSE M. D'AMATO

Mr. Chairman, I would like to commend you for holding this hearing to discuss the affordable housing goals which HUD has set for the Government-sponsored mortgage finance corporations, Fannie Mae and Freddie Mac. Welcome Secretary Cisneros to the Committee. I am grateful for his commitment and appreciate the time that he has taken to meet with this Committee to discuss the housing needs of our Nation.

I look forward to hearing the Secretary's testimony on how HUD will continue to work with Fannie and Freddie to ensure that they are able to reach affordable housing goals that have been set by HUD. I am disappointed that neither Fannie Mae or Freddie Mac were invited to testify at this hearing. I think that their presence and insight is essential to formulate any ideas or expectations relating to affordable housing goals.

Fannie Mae and Freddie Mac offer a service of tremendous importance to the Nation's home mortgage finance system and to homeowners in every part of the country. Together, they produce more affordable housing than all Federal housing programs combined. These corporations have strived to carry out their public roles in providing a steady supply of mortgage credit with particular attention to the credit needs of low- and moderate-income homeowners. They have been able to do this with a sufficient degree of financial safety and soundness to minimize the risk that they will become a financial burden on the taxpayers.

As recently as June of last year, HUD Assistant Secretary Nicolas Retsinas stated in his testimony before the Senate Banking Committee that "[Multifamily housing is a high-risk business, particularly when you're trying to meet what are the necessary housing needs of low-income families and low-income individuals throughout this country.]"

I urge the Secretary to be very careful when establishing affordable housing goals for both Freddie and Fannie. I hope that Secretary Cisneros will take the opportunity to work with both Corporations to increase the understanding of underserved segments and the appropriate role of the conventional secondary market in addressing those needs. It is critical that the goals set are not unrealistic or infeasible. Defaults are bad for investors, bad for borrowers, bad for the taxpayer, and particularly bad for the very communities that we are trying to help.

HUD must understand the risk involved in addressing the needs of the underserved, and find ways to mitigate and control that risk. This can be done only by working with the GSE's to develop realistic goals. While Freddie Mac and Fannie Mae bring tremendous benefits to the marketplace, they cannot be a substitute for Federal programs. Freddie Mac and Fannie Mae draw their strength from private market forces: A private corporate structure and shareholders. I hope that Congress, HUD, and Fannie and Freddie Mac can all work together to provide realistic goals to provide affordable housing to those in need.

PREPARED STATEMENT OF SENATOR CHRISTOPHER J. DODD

Given the shortage of affordable housing in this country, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) must continue to expand their efforts to finance homes in underserved communities. Far too many Americans, particularly low-income families, continue to pay burdensome rents for substandard housing. For these families, home ownership remains a distant dream. With the ability to commit billions of dollars for home mortgages, Fannie Mae and Freddie Mac have the power make those dreams a reality.

Indeed, by virtue of their congressional charters, Fannie Mae and Freddie Mac have a *responsibility* to improve the accessibility and affordability of housing. Unfortunately, in years past they have not always met that responsibility.

1990 data compiled for the Home Mortgage Disclosure Act suggested that these Government-Sponsored Enterprises were not purchasing the level of low- and moderate-income mortgages required by regulations established by the Department of Housing and Urban Development (HUD). Additionally, only 2.5 percent of loans purchased by Fannie Mae and 3.6 percent of loans purchased by Freddie Mac were in neighborhoods where at least 80 percent of the residents were minorities.

In response, Congress passed the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 which clarified the affordable housing goals that Fannie Mae and Freddie Mac were expected to meet. On March 1, Fannie Mae and Freddie Mac submitted the first reports required by the Act.

As Secretary Cisneros will explain shortly, the results are mixed. Both Fannie Mae and Freddie Mac met the 1993 goals established for the financing of units serving families with incomes below area medians. Fannie Mae was given a target of 30 percent, and 35.6 percent of the units it financed served such families. Similarly, Freddie Mac was given a goal of 28 percent, and 29 percent of the units it financed met the requirement.

However, neither GSE met the central cities requirement. Fannie Mae's target for units in central cities was set at 28 percent, and only about 26 percent of the units it financed were in these areas. Similarly, Freddie Mac's goal was 28 percent and only 24 percent of the units it financed qualified.

In fairness to the GSE's, part of the problem might be the definition of "Central Cities" which the Office of Management and Budget promulgated as pursuant to the Act. It appears that the "Central Cities" category does not necessarily correspond to underserved areas. We may have to make changes to ensure that the goal is serving its purpose—increasing the financing available to low- and moderate-income families.

Also, Fannie Mae and Freddie Mac should be commended for their recent efforts to improve their affordable housing efforts. In March, Fannie Mae announced that between now and the year 2000, it will commit \$1 trillion to help finance over 10 million homes for families most in need. Also, Freddie Mac has continued to expand its "Affordable Gold" Program, which helps to reduce the downpayment for first time homebuyers. One initiative under this program, the Connecticut Homebuyers Affordable Mortgage Program or CHAMP, has had some success in my home State.

In Conclusion, we must not get lost in the complex language of economics when we discuss housing finance. What we are really talking about is decent homes for families, better communities, and jobs. And we need to approach this issue with the urgency it deserves. A recent report from the Connecticut Association of Human Services noted that the number of children using homeless shelters in my home State increased 40 percent in the last 5 years. We must work together to improve the lives of our children, and stronger efforts by every element of the housing industry can play an important role.

PREPARED STATEMENT OF HENRY CISNEROS

SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

INTERIM 1993 HOUSING GOALS PERFORMANCE OF FANNIE MAE AND FREDDIE MAC

APRIL 13, 1994

Mr. Chairman, Senator D'Amato, and Members of the Committee, I am pleased to be with you today to discuss the housing goal performance in 1993 of Fannie Mae and Freddie Mac, the two major housing Government-Sponsored Enterprises (GSE's) regulated by the Department, and other related issues.

When I testified before this Committee at my confirmation hearing in January 1993, I stated that ensuring a steady supply of livable and affordable housing to our communities was a value central to the mission of the Clinton Administration and the Department of Housing and Urban Development. I also stated that I came to this assignment as a strong advocate of cities, with my background as former Mayor of San Antonio and former President of the National League of Cities.

I emphasized at that time that if we are to help low-income families seeking to acquire their own homes and to help American cities, HUD must work effectively with units of Government, representatives of the non-profit and private sectors, and Government-Sponsored Enterprises who share our goals and want to achieve concrete results.

In our capacity as the regulator of Fannie Mae and Freddie Mac, HUD has made progress in working with the GSE's to achieve more housing for low- and moderate-income families and families living in our Nation's central cities. Because of their size—measured by their assets, they are two of the largest companies in the Nation—sophistication, and nature of their business, Fannie Mae and Freddie Mac play a enormously important role in this country's mortgage finance system. Fannie Mae and Freddie Mac derive great benefit from the explicit and implicit subsidies that they receive from the Federal Government; in exchange, Congress has required that they provide benefits to low-income Americans and others who have traditionally been denied or found it difficult to achieve access to mortgage credit.

Because of their dominating role and the large Federal subsidies that they receive, Fannie Mae and Freddie Mac are essential to achieving the Nation's housing

objectives. The activities of the GSE's in support of affordable housing can make a significant difference in the success or failure of community development efforts ranging from ending homelessness and promoting home ownership to housing rehabilitation by community-based non-profit and for-profit enterprises.

In our role as the regulator of Fannie Mae and Freddie Mac, HUD is committed to ensuring that the GSE's carry out their responsibilities to serve the housing needs of low-income and underserved families. Both of these enterprises have improved their overall performance in 1993 in this area and have begun new programs to increase their ability to deliver the benefits of their activities to traditionally underserved borrowers. We applaud that activity. More remains to be done, and we look forward to our ongoing work with both Fannie Mae and Freddie Mac to ensure that the Nation's housing needs are met.

BACKGROUND

In 1992, Congress passed the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, with very strong bipartisan support and leadership by you, Mr. Chairman, and by Senator Garn, who at that time was the Ranking Minority Member of this Committee. I commend you and the other Members of this Committee for your work on this legislation, which reaffirmed HUD's broad regulatory responsibilities over the GSE's, including promulgation of fair housing regulations, approval of new programs, and verification of Charter Act compliance, and which set forth the housing goals that will be discussed at today's hearing and called for HUD to monitor the GSE's record with regard to the achievement of these goals. This legislation also established a framework which will ensure the financial safety and soundness of these GSE's, under HUD's new Office of Federal Housing Enterprise Oversight.

As GSE's, these two corporations benefit from certain special privileges, including: (1) lower borrowing costs because the market perceives an implicit Federal guarantee of GSE securities; (2) higher demand for their securities, since they qualify as "qualified investments" for regulated financial institutions; (3) exemption from all State and local taxes except property taxes; (4) exemption from securities registration requirements of the Securities and Exchange Commission and the States; and (5) conditional access to a \$2.25 billion line of credit from the U.S. Treasury. These privileges provided to Fannie Mae and Freddie Mac result in an implicit public subsidy which reduces the costs of their operations and allows them to pass on a reduction in mortgage interest rates to homeowners.

In return for these benefits, Congress has established public purposes for the GSE's, which include increasing the liquidity of mortgage investments; providing ongoing assistance to the secondary market for residential mortgages, including activities relating to mortgages on housing for low- and moderate-income families; and promoting access to mortgage credit throughout the Nation, including central cities, rural areas, and underserved areas.

The 1992 Act established three separate goals for mortgage purchases by Fannie Mae and Freddie Mac: low- and moderate-income housing goals, special affordable housing goals, and central cities, rural areas, and other underserved areas goals. During the 1993-94 transition period, the Act established targets of 30 percent of the total number of dwelling units financed by the mortgage purchases of each enterprise for low- and moderate-income families, and also 30 percent targets for housing units located in central cities.

With regard to special affordable housing, the 1992 Act established, above and beyond the GSE's then-existing purchases, goals of at least \$2 billion for Fannie Mae and at least \$1.5 billion for Freddie Mac over the 1993-94 period. Half of these purchases are for single-family mortgages and half are on multifamily mortgages.

The 1992 Act also specified that for both the transitional low- and moderate-income and central city goals, if an enterprise was not meeting a target as of January 1, 1993, HUD would establish goals for 1993 and 1994 which would require the enterprise to improve its performance and to meet the 30 percent target by the end of the transition period. HUD published Notices of interim housing goals for 1993 and 1994 in the *Federal Register* on October 13, 1993.

Congress made a wise choice in establishing a transition period, because it has allowed all of us—HUD, the GSE's, and Congress—to learn about how to focus the goals in an effective fashion. In addition, it has given us the opportunity to obtain more accurate information about the activities of Fannie Mae and Freddie Mac, information which was not available until last month.

THE 1993 GOALS

Let me describe how HUD established the goals for 1993, the first year of the transition period.

As shown in Table 1, HUD estimated that 28 percent of the dwelling units financed by Fannie Mae's mortgage purchases and 24 percent of Freddie Mac's purchases in 1992 were for low- and moderate-income families. Thus the low-mod goals were set at 30 percent for Fannie Mae and at 28 percent for Freddie Mac for 1993, and at 30 percent for both enterprises for 1994.

Similarly, HUD estimated that 26 percent of Fannie Mae's purchases and 22 percent of Freddie Mac's purchases in 1992 were on central city properties [Table 2]. The central city goals were set at 28 percent for Fannie Mae and at 26 percent for Freddie Mac for 1993, and at 30 percent for both enterprises for 1994. Both 1993 goals were set at lower levels for Freddie Mac than for Fannie Mae, but the increases from the 1992 baselines were greater for Freddie Mac, which seemed equitable to the Department. The goals are identical for both GSE's for 1994.

In order to establish the 1993-94 special affordable housing goals, in December 1993 each enterprise submitted a good faith estimate of the level of its activity in these areas in 1992. As shown in Table 3, Fannie Mae estimated its 1992 special affordable purchases as \$5.7 billion single family and \$1.3 billion multifamily. Freddie Mac's corresponding estimates were \$5.2 billion single-family and \$26 million multifamily; the latter figure was very low because Freddie Mac only fully reentered the multifamily market as of December 1, 1993, after withdrawing from multifamily activity for several years. HUD doubled these estimates of 1992 special affordable housing mortgage purchases and added the increments specified by the 1992 Act to obtain the 1993-94 minimum single-family and multifamily goals.

THE 1993 RECORD

On March 1, Fannie Mae and Freddie Mac submitted their estimates of 1993 performance, in formats specified by the Department. This is the first time that such detailed information has been made publicly available on the GSE's activities, which involved the purchase of 5.3 million mortgages on 5.6 million dwelling units in 1993. My testimony today is based on the Department's review of the aggregated tables provided by the enterprises. The GSE's also submitted detailed computer tapes on all of the loans purchased in 1993.¹ HUD is analyzing these tapes, but because of the volume of mortgages, our analysis is not based on a loan-level review of the GSE's data, and HUD has not yet had time to independently verify the GSE's stated performance.

With low- and moderate-income purchases equal to 35.6 percent and 29.2 percent of their total purchases respectively [Table 1], Fannie Mae and Freddie Mac both showed significant gains in comparison with 1992, and both exceeded the goals established by the Department. I commend the enterprises on their performance, which means that dwelling units for approximately 325,000 low- and moderate-income families were supported by GSE financing over and above the levels that would have occurred if the enterprises' performance had remained at the 1992 levels. With regard to the difference between the two enterprises, approximately 55 percent is due to Freddie Mac's low level of multifamily financing last year.

With regard to central cities [Table 2], Fannie Mae showed some gain in comparison with 1992, with 26.3 percent of its activity benefiting central city residents, but it did not achieve the 28 percent goal. Freddie Mac achieved a larger gain in central city activity, at 24 percent, but also fell short of its 26 percent goal. Both GSE's have indicated that because refinancing was so strong in 1993, and such activity is more common outside of central cities, this reduced their central city percentages to some extent last year. As the refinancing tide ebbs, the central city share of business for each enterprise should show some increase in 1994 from this factor alone.

HUD is requesting that both Fannie Mae and Freddie Mac provide us with a housing plan detailing how each of them intends to meet the central cities goals for 1994. During the 1993-94 transition period, HUD does not have the authority to impose the sanctions that are available to it after the transition period. The transition period is clearly meant to be a time for the GSE's to refocus their business activities, so that they can achieve the goals by the end of 1994.

Both companies are well on their way toward meeting the special affordable housing goals [Table 3], achieving more than 50 percent of their 1993-94 single-family subgoals and their total goals in 1993. Fannie Mae achieved 56 percent of its 2-year multifamily goal last year, while Freddie Mac achieved just 3 percent of its multifamily goal.

In 1993 both enterprises undertook a significant range of new initiatives to expand their ability to serve low-income and other underserved families. The many initiatives include:

¹Fannie Mae provided these tapes on March 1; Freddie Mac provided them on April 1.

- Fannie Mae's recent announcement of a \$1 trillion dollars in targeted financing by the end of the decade, representing over \$140 billion of net new financing, is an extraordinary commitment. The eleven initiatives encompassed in Fannie Mae's "Showing America a New Way Home" strategy focus on making the Nation's housing finance system work better for more Americans, including the elimination of discrimination in housing finance, increased access to information on home ownership, and greater outreach to families and communities left out by traditional activities. The leadership demonstrated by Fannie Mae and its chairman Jim Johnson in envisioning this commitment must be applauded.
- Both Freddie Mac and Fannie Mae have expanded the range of partners with whom they work, to include nontraditional lenders like State housing finance agencies, local governments, nonprofit lending consortia, and community-based advocacy groups. Both enterprises have also been working to expand their seller/servicer networks to include minority lenders.
- Both SEC's have been working on experimenting with underwriting standards, by combining alternative methods of underwriting with other practices like pre- and post-purchase home ownership counseling. Collectively, we do not know enough about how far we can prudently stretch the envelope so that households previously considered marginal in terms of credit risk can be given the opportunity for home ownership. The current and proposed underwriting experiments and research that both Freddie Mac and Fannie Mae are engaged in will teach us more about the ways in which underwriting standards can be revised.
- Fannie Mae has been working to create central-city partnerships that include a wide range of partners, including nonprofit developers, lenders, local governments, and community organizations. These partnerships are locally based, use Fannie Mae's existing affordable housing products, create new ones as necessary, and are designed to address housing priorities that the cities set themselves.
- Freddie Mac has been working to learn more about the role of secondary-mortgage market underwriting guidelines and their impact in various communities through its Underwriting Barriers Outreach Groups. As a result of this process, Freddie Mac has recently issued a number of clarifications to its guidelines.

In addition to our important role as the regulator of Fannie Mae and Freddie Mac, we are also working with them as their partner on a number of activities designed to increase affordable housing and home ownership opportunities. There is a creative tension between being the regulator of the GSE's housing mission and their partner; but, as the Nation's housing agency and the country's two largest housing GSE's, HUD, Fannie Mae, and Freddie Mac must work together to ensure that the Nation's many housing needs are met. In our partnership role, we have undertaken a number of activities with Fannie Mae and Freddie Mac; these activities enable HUD to further its agenda to meet critical housing needs and also assist the GSE's in meeting their housing goals. These partnership activities include:

- Both GSE's have committed to participating in the Administration's Empowerment Zone initiative to revitalize cities throughout the country. Fannie Mae and Freddie Mac have participated in ten HUD technical assistance meetings for prospective applicants to facilitate the empowerment zone and enterprise community designation process. Fannie Mae intends to enter into working partnerships with the various communities designated as Empowerment Zones in order to encourage the leveraging of public and private resources to address the housing needs of those communities. Each partnership would be tailored to the particular needs and resources of the individual empowerment-zone community and would require each partner to pursue defined objectives.
- Both Fannie Mae and Freddie Mac are negotiating risk-sharing agreements with FHA for multifamily housing. The risk-sharing pilot program will allow each partner to take advantage of their separate strengths to increase the volume of affordable multifamily housing financed in the future.
- Rehabilitation of single-family homes is an important part of revitalizing many urban communities, but it is often difficult for homeowners to obtain financing for rehabilitation. Freddie Mac and Fannie Mae are working with HUD to assist it in streamlining the FHA 203(k) program, our primary program for the rehabilitation of single-family properties.

OTHER ASPECTS OF THE GSE'S 1993 PERFORMANCE

I would now like to describe several aspects of the GSE's activities in 1993 about which we have some concern—the income levels of the primary beneficiaries of the GSE's activities, their first-time homebuyer activity, and Freddie Mac's level of level of multifamily purchases.

When we looked at borrower income levels for all loans purchased by the GSE's in 1993 [Table 4], we found that only 16 percent of all loans purchased by Freddie

Mac were for borrowers with incomes below 80 percent of median. For Fannie Mae, 22 percent of their mortgage purchases benefited borrowers with incomes below 80 percent of median.

We also looked at the income distribution under the two major housing goals. For Fannie Mae [Table 5], 23 percent of the mortgages under their low- and moderate income goal were for very low-income families,² 37 percent were for low-income families,³ and 39 percent were for moderate-income families.⁴ The corresponding figures for Freddie Mac were 19 percent, 35 percent, and 47 percent; most of the difference between the two enterprises reflects Fannie Mae's much higher volume of multifamily activity in 1993.

The 1993 data also indicate that 28 percent of Fannie Mae's total mortgages on properties located in central cities went to low-income families, while 45 percent went to families with incomes in excess of 120 percent of area median income [Table 6]. The corresponding figures for Freddie Mac were 20 percent and 52 percent; most of the difference again reflects Fannie Mae's much higher volume of multifamily activity in 1993. These results indicate that the central cities goal should be better targeted to low-income areas within the cities, as part of a broader "underserved areas" goal.

I would also like to note our concern about the GSE's purchases of mortgages for first-time homebuyers [Table 7]. Eight percent of the total number of mortgages purchased by Fannie Mae were for first-time homebuyers; Freddie Mac's percentage of first-time homebuyers was 7 percent. If we look only at purchase mortgages—essentially excluding refinancings—approximately one-fourth of the total mortgages purchased by Fannie Mae were for first-time homebuyers; for Freddie Mac, the percentage was higher, at 31 percent.

HUD is committed to maximizing opportunities for the one third of our Nation who are not now homeowners, many of whom would dearly love to own a home of their own. Both Fannie Mae and Freddie Mac have stated their commitment to generating new home ownership opportunities; we look forward to seeing that commitment result in an increase in these numbers.

I would also like to note our concern about Freddie Mac's level of business in the multifamily area. In 1993, Freddie Mac purchased \$191 million of multifamily mortgages. In contrast, Fannie Mae purchased \$4.6 billion of multifamily mortgages. Although HUD understands that Freddie Mac's difficulties with its apartment portfolio in the late 1980's caused it to suspend activity in 1990, we are concerned that Freddie Mac's re-entry into the market has been particularly slow. The critical need for affordable rental housing in this country demands that Freddie Mac expand its level of activity in multifamily financing.

MINORITY LENDING

I would like to now summarize for you an area of Fannie Mae's and Freddie Mac's business about which HUD is particularly concerned—their financing activity for minority families and communities.

HUD asked Fannie Mae and Freddie Mac to provide detailed information on their purchases of mortgages benefiting minority households and minority communities. Excluding those loans for which race data is missing, about 12 percent of the GSE's purchases were for mortgages with minority borrowers [Table 8]. We compared this data with the corresponding HMDA data for 1992, a comparison which suggests that the GSE's purchases generally follow the corresponding distribution of originations. Having said that, however, we are concerned that the African American and Hispanic shares of conventional originations and GSE purchases are far too low. African American borrowers account for only 2.3 percent of Fannie Mae's purchases and 1.7 percent of Freddie Mac's purchases. Hispanic borrowers fare only slightly better, at 3.4 percent for Fannie Mae and 3.3 percent for Freddie Mac.

As I and my colleagues at HUD and in the Clinton Administration have stated in other forums, the lending industry must do everything it can to eliminate mortgage lending discrimination. Both GSE's have announced efforts to review and revise borrower policies which might have inadvertent discriminatory impacts on minorities. We feel very strongly that the enterprises should ensure that minorities have equal access to the benefits of the secondary market and will monitor closely the efforts of Fannie Mae and Freddie Mac to extend the benefits of their activities to minorities.

In addition, we asked the GSE's to provide HUD with information about the distribution of their mortgage purchases by minority percentage of census tract [Table

² Families with income less than 60 percent of area median income.

³ Families with income between 60 percent and 80 percent of area median income.

⁴ Families with income between 80 percent and 100 percent of area median income.

9]. The data shows that the percentage of mortgages purchased by the GSE's declines rapidly as the minority concentration of a census tract increases. To provide a basis for evaluating this data, we compared it with HMDA data.⁵ The results indicate that the distributions of GSE purchases by minority percentage of census tract loosely match the corresponding distribution of relevant originations covered by the HMDA data. While HUD recognizes that Fannie Mae and Freddie Mac do not originate loans, we believe that they can play a critical leadership role in assisting the lending industry to make more loans to minorities. Both GSE's have stated their desire to play that leadership role, and as a result of that desire, we expect to see changes in the level of the GSE's business that benefits minorities.

In the past several years, the question has also been raised whether the underwriting guidelines of the GSE's discourage lending in high minority areas in some way. Both GSE's report that they have taken a number of steps in recent years to increase the flexibility of the guidelines, without compromising the safety and soundness of the enterprises. HUD will begin a review of the underwriting and appraisal guidelines of the enterprises this year to ensure that there is no discriminatory impact from the application of those guidelines.

HUD'S CURRENT ACTIVITIES UNDER THE GSE ACT

Public Use Database

We are working to make available to the public the loan-level data submitted by the enterprises, including data in forms accessible by computers. HUD has obtained data tapes from both GSE's with detailed information about every loan—5.3 million—they purchased in 1993. However, in accordance with the 1992 Act, HUD wants to make certain that no proprietary information or information which could violate a borrower's privacy is released. A number of meetings have been held between Department staff and representatives of the GSE's to discuss what the GSE's deem to be information that could cause them competitive harm if it were released. We hope to conclude those discussions shortly.

Our goal is to make the public-use database available by the end of the summer in a form accessible to a broad range of users, including community groups, fair housing organizations, universities, and others. We are intent on "democratizing the data," so that the information is easily used and widely circulated.

Future Low- and Moderate-Income Goals

The low- and moderate-income goals have been set at 30 percent for 1994. Fannie Mae exceeded this level in 1993, but the 1992 Act does not allow setting a low- and moderate-income goal in excess of 30 percent for 1994, because HUD estimated that both enterprises' low- and moderate-income purchases were less than 30 percent of total dwelling units financed in 1992. HUD is concerned that almost half of the single-family units under the low/moderate-income goals for both GSE's were for borrowers with incomes between 80 and 100 percent of median, as opposed to low-income (less than 80 percent of median income) borrowers. These data raise the question of whether subgoals should be set for low-income families and very low-income families—under the 1992 Act, HUD has this authority. Although HUD could set sub-goals under the low- and moderate-income goal, those sub-goals by statute are not enforceable.

Future Geographic Goals

The central cities goals for 1994 have also been set at the 30 percent target levels established by the 1992 Act. Achievement of these goals will require both enterprises to purchase more mortgages on central city properties by reaching out to new categories of borrowers. Both GSE's, but particularly Freddie Mac, will also have to expand their purchases of multifamily mortgages in central-city neighborhoods in order to achieve the central cities goals in 1994. One factor which should make it easier for the GSE's to increase the central city percentages of their purchases is the fact that refinancings, which have been less common in central cities, will in all likelihood diminish as a percentage of their business this year.

After the 1993-94 period, the geographic goals apply to central cities, rural areas, and other underserved areas. The 1992 Act states that during the 1993-94 transition period, "central cities" are defined by the list of such cities published by OMB. This list has been developed for statistical purposes, but, as OMB points out, it may

⁵ HMDA data for 1993 will not be available until late this fall.

not be useful for various programs, including the establishment of goals for central cities with serious housing needs.⁶

HUD is undertaking research and consulting with housing experts, and will meet with the GSE's and obtain comments from the public through the regulatory process to develop a workable framework for establishing geographic goals for 1995 and subsequent years. The purpose of this process is to identify those geographic areas in this country, particularly inner-city and rural areas, that have poor access to mortgage credit through the use of residential characteristics that include median income and minority population.

Future Special Affordable Housing Goals

After this transition period, the 1992 Act states that this goal shall be established for each enterprise at not less than 1 percent of the dollar amount of the mortgage purchased by the enterprise for the previous year. The Senate report on the 1992 Act states that one of the purposes of the special affordable housing goals is to increase the GSE's purchase of mortgages serving low-income families above and beyond their existing performance. Thus HUD believes that these 1-percent minimum goals, like the 1993-94 special affordable housing goals should be above and beyond the enterprises' activities in 1992. HUD also notes that the 1 percent figure is a minimum; higher percentages might be appropriate, if they are feasible, taking into account that the GSE's mortgage volume may vary significantly from 1 year to the next, as we have seen in both 1992 and 1993.

The detailed single-family and multifamily special affordable housing subgoals apply only to the 1993-94 transition period. HUD believes that subgoals for 1995 and beyond are appropriate, but such subgoals will differ from the 1993-94 subgoals, with a greater focus on multifamily housing affordable to very low-income renters and single-family mortgages for very low-income borrowers.

HUD'S REGULATORY STRUCTURE

Mr. Chairman, I now want to speak to the issue of how HUD has organized itself to carry out its vastly expanded regulatory responsibilities under the GSE Act. HUD faces greatly increased staff needs and costs due to its new and increased responsibilities for the programmatic regulation of the GSE's. I know that Congress has been critical, and rightly so, of HUD's past performance in regulating the GSE's. I want you to know that we take our expanded role seriously and intend to carry it out responsibly.

To ensure that we do, I asked Nicolas Retsinas, the Assistant Secretary for Housing—Federal Housing Commissioner to take charge of the Department's GSE regulatory responsibilities. Assistant Secretary Retsinas works with Michael Stegman, Assistant Secretary for Policy Development and Research, Roberta Achtenberg, Assistant Secretary for Fair Housing and Equal Opportunity, and Nelson Diaz, HUD's General Counsel, on the Department's regulatory activities. In addition, I hired a Special Assistant, Stephanie Smith, in November 1993 to work with Assistant Secretary Retsinas on overseeing the Department's activities with Fannie Mae and Freddie Mac.

Seven staff people within HUD work on regulatory activities, which include establishing and monitoring the housing goals, conducting research on the secondary market, analyzing data on the GSE's performance, establishing and monitoring fair-lending goals, approving new programs, and reporting to Congress. In the past year, we have carried out a number of tasks, including issuing the interim rule governing the housing goals for 1993 and 1994, working out detailed reporting formats with Fannie Mae and Freddie Mac, approving new-program requests, conducting research for reports to Congress, drafting the final regulation under the GSE Act, and reviewing the GSE's compliance with the housing goals.

This is good work in a short period of time, but I want to express my concern about the level of resources that we have available to devote to this effort. HUD was given greatly increased responsibilities for regulating Fannie Mae and Freddie Mac, two of the largest, most sophisticated, and most important companies in the country. We are happy to accept these responsibilities and are committed to carrying out these activities in a competent manner. But we are now working with the reality that no concomitant increase in resources followed the expansion of our GSE regulatory function. We anticipate discussing with Congress shortly the need for ad-

⁶To cite one anomaly, the OMB list includes Palo Alto, California, with a 1989 per capita income of \$32,489, a median family income of \$68,790, and a 1989 poverty rate of 1.9 percent, but it excludes Compton, California, with a 1989 per capita income of \$7,842, a median family income of \$25,699, and a 1989 poverty rate of 24.2 percent.

ditional resources in order for HUD to carry out its regulatory responsibilities in a timely and proficient manner.

CONCLUSION

Mr. Chairman, I want to thank you again for the opportunity to testify on behalf of HUD as the regulator of Fannie Mae and Freddie Mac. Let me conclude by assuring you and the Members of this Committee that HUD is committed to being an effective and diligent regulator of the GSE's, and we look forward to working with this Committee as we carry out that important responsibility.

I would be happy to answer any questions you might have.

TABLE 1

GSEs' Low-Mod Purchases in 1992 and 1993,
HUD Goals for 1993 and 1994⁷

	<u>FNMA</u>	<u>FHLMC</u>
1992 Purchases	28%	24%
1993 HUD Goals	30%	28%
1993 Purchases:		
Single Family	31.8%	28.9%
Multifamily	95.4%	93.5%
Total	35.5%	29.2%
1994 HUD Goals	30%	30%

TABLE 2

GSEs' Central City Purchases in 1992 and 1993,
HUD Goals for 1993 and 1994⁸

	<u>FNMA</u>	<u>FHLMC</u>
1992 Purchases	26%	22%
1993 HUD Goals	28%	26%
1993 Purchases:		
Single Family	25.1%	23.9%
Multifamily	47.6%	54.2%
Total	26.3%	24.1%
1994 HUD Goals	30%	30%

⁷ All figures are expressed in terms of percentages of dwelling units in properties whose mortgages were purchased by the GSEs and were eligible to qualify as low- and moderate-income mortgages.

⁸ All figures are expressed in terms of percentages of dwelling units in properties whose mortgages were purchased by the GSEs and were eligible to qualify as central city mortgages.

TABLE 3

GSEs' Special Affordable Housing Purchases in 1993,
HUD Goals for 1993-94

(Dollar amounts in billions; excluding refinancings
of mortgages from GSEs' own portfolios)

	<u>FNMA</u>	<u>FHLMC</u>
1992 Purchases:		
Single Family	\$5.69	\$5.19
Multifamily	\$1.34	\$0.02
Total	\$7.03	\$5.21
1993-94 Minimum Goals: ⁹		
Single Family	\$12.38	\$11.13
Multifamily	\$ 3.68	\$ 0.79
Total	\$16.06 ¹⁰	\$11.92
1993 Purchases: ¹¹		
Single Family	\$ 8.84	\$ 6.60
Multifamily	\$ 2.06	\$ 0.02
Total	\$10.90	\$ 6.62
Percentage of 1993-94 Goals Achieved in 1993:		
Single Family	71%	59%
Multifamily	56%	3%
Total	68%	56%

⁹ Twice the level of 1992 purchases plus \$1.0 billion single family and \$1.0 billion multifamily for FNMA, and \$0.75 billion single family and \$0.75 billion multifamily for FHLMC

¹⁰ FNMA lists its total special affordable housing goal as \$16.39 billion, but that includes refinancings of mortgages from FNMA's own portfolios

¹¹ Purchases exclude estimated refinancings from own portfolios.

TABLE 4

Distribution of Qualifying Low- and Moderate-Income Units
by Income Class of Mortgagor or Renter, 1993¹²

Income of Mortgagor(s) or Renters Relative to Area Median Income	FNMA		Total	FHLMC		Total
	Single Family ¹³	Multi Family		Single Family ¹⁴	Multi Family	
0% - 60%	19.7%	42.9%	23.4%	17.8%	75.4%	18.7%
60% - 80%	35.1%	48.2%	37.2%	34.9%	21.4%	34.6%
80% - 100%	45.2%	8.9%	39.4%	47.4%	3.2%	46.7%
Exceeds 100%	NA	NA	NA	NA	NA	NA
TOTAL	100.0 %	100.0 %	100.0 %	100.0%	100.0 %	100.0%

¹² Excludes units for which income (or rental) information was not available. Single family investor-owned rental units have been classified by both GSEs using the low- and moderate-income rental standard.

¹³ FNMA has included or excluded rental units in 2-4 unit owner-occupied properties based on the income of the owner.

¹⁴ FHLMC has included or excluded rental units in 2-4 unit owner-occupied properties based on the rent for such units.

TABLE 5

Distribution of Qualifying Central City Units
by Income Class of Mortgagor or Renter, 1993¹⁵

Income of Mortgagor(s) or Renters Relative to Area Median Income	FNMA		Total	FHLMC		Total
	Single Family	Multi Family		Single Family	Multi Family	
0% - 60%	8.6%	43.4%	12.3%	7.1%	81.6%	8.0%
60% - 80%	12.8%	43.9%	16.9%	11.8%	11.7%	11.8%
80% - 100%	14.6%	8.1%	13.9%	14.5%	5.8%	14.4%
100% - 120%	13.5%	1.8%	12.3%	13.8%	0.7%	13.7%
Exceeds 120%	50.6%	2.9%	45.4%	52.7%	0.1%	52.1%
TOTAL	100.0 %	100.0 %	100.0 %	100.0%	100.0 %	100.0%

¹⁵ Excludes units for which income (or rental) information was not available. Single family investor-owned rental units have been classified using the low- and moderate-income rental standard.

TABLE 6

Distribution of Dwelling Units in Total GSE Purchases
by Income Class of Mortgagor or Renter, 1993¹⁶

Income of Mortgagor(s) or Renters Relative to Area Median Income	FNMA		Total	FHLMC		Total
	Single Family	Multi Family		Single Family	Multi Family	
0% - 60%	6.3%	43.3%	8.7%	5.3%	70.5%	5.6%
60% - 80%	11.1%	43.8%	13.2%	10.3%	20.0%	10.4%
80% - 100%	14.2%	8.3%	13.9%	14.0%	3.7%	14.0%
100% - 120%	14.5%	1.8%	13.7%	14.7%	2.2%	14.6%
Exceeds 120%	53.8%	2.8%	50.6%	55.7%	3.6%	55.4%
TOTAL	100.0 %	100.0 %	100.0 %	100.0%	100.0 %	100.0%

¹⁶ Excludes units for which income (or rental) information was not available. Single family investor-owned rental units have been classified using the low- and moderate-income rental standard.

TABLE 7

Single-Family Mortgages for First-Time Homebuyers
Purchased by the GSEs Relative to Total
Single-Family Mortgages Purchased, 1993¹⁷

First-Time Homebuyers	FNMA		FHLMC	
	Purchase Mortgages	Total Mortgages	Purchase Mortgages	Total Mortgages
Standard Program	21.6%	7.4%	31.1%	6.9%
Special Programs	2.4%	0.8%	0.4%	0.1%
SUBTOTAL	24.0%	8.2%	31.5%	7.0%
Total Purchase Mortgages	100.0%	34.2%	100.0%	22.2%
Other Mortgages ¹⁸	NA	65.8%	NA	77.8%
Total Mortgages	NA	100.0%	NA	100.0%

¹⁷ Loans for which information on first-time homebuyer/repeat homebuyer information is not available have been excluded. Both GSEs define "first-time homebuyer" as an individual who (1) is purchasing the mortgaged premises, (2) will reside in the mortgaged premises, and (3) had no ownership interest (sole or joint) in a residential property during the three-year period preceding the date of the purchase of the mortgages premises. In addition, an individual who is a displaced homemaker or single parent will also be considered a first-time homebuyer if he or she had no ownership interest in a principal residence (other than a joint ownership interest with a spouse) during the preceding three-year period.

¹⁸ Refinance mortgages, second mortgages, mortgages on second home, non owner-occupied mortgages, FHA-insured and VA-guaranteed mortgages, and home equity conversion mortgages (HECMs), or data missing

TABLE 8

Distribution of Mortgage Originations in 1992
and Total GSE Single Family Mortgage Purchases in 1993,
by Minority Percentage of Census Tract¹⁹

Minority Percentage of Census Tract	HMDA-Derived Dwelling Units in Single Family Originations in 1992 ²⁰	Mortgages Purchased in 1993	
		FNMA	FHLMC
0% - 10%	56.4%	55.2%	57.4%
10% - 20%	20.1%	20.9%	20.4%
20% - 50%	16.0%	16.2%	15.6%
50% - 80%	4.8%	5.0%	4.6%
80% - 100%	2.6%	2.6%	2.0%
TOTAL	100.0%	100.0%	100.0%

¹⁹ Excluding mortgages for which tract information is not available.

²⁰ Based on Federal Reserve tabulations of 1992 HMDA data on originations of conventional mortgages below the 1992 GSE single-unit conforming loan limit (\$202,300, but 50 percent higher in Alaska, Guam, and Hawaii.)

TABLE 9

Distribution of Mortgage Originations in 1992
and Total GSE Single Family Mortgage Purchases in 1993,
by Race/Ethnicity of Borrower(s)²¹

<u>Race/Ethnicity of Borrower(s)</u>	HMDA-Derived Originations in 1992 ²²	<u>Mortgages Purchased in 1993</u>	
		<u>FNMA</u>	<u>FHLMC</u>
American Indian Alaskan Native	0.4%	0.5%	0.5%
Asian or Pacific Islander	3.6%	4.4%	4.9%
Black	2.6%	2.3%	1.7%
Hispanic	3.3%	3.4%	3.3%
Non-Hispanic White	87.9%	86.7%	87.1%
Other	0.4%	0.6%	0.5%
Joint ²³	1.9%	2.1%	2.0%
<hr/>			
TOTAL	100.0%	100.0%	100.0%

²¹ Excluding mortgages for which information on the race/ethnic background of the borrower is not available or is not applicable.

²² Based on Federal Reserve tabulations of 1992 HMDA data on originations of conventional mortgages below the 1992 GSE single-unit conforming loan limit (\$202,300, but 50 percent higher in Alaska, Guam, and Hawaii)

²³ Borrower and co-borrower are of different races or ethnicity.

PREPARED STATEMENT OF SENATOR CAROL MOSELEY-BRAUN

Mr. Chairman, the subject of this morning's hearing—the housing goals of the Government-Sponsored Enterprises (GSE's), Fannie Mae and Freddie Mac—is of importance to every American. I commend you and this Committee for its continuing oversight work of the GSE's.

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 was a very important first step in ensuring a strong oversight of the soundness and safety of the GSE's in order to limit potential Government risk. Equally important are the goals that this legislation set to ensure that Fannie and Freddie sufficiently serve the housing needs of low- and moderate-income families.

I look forward to Secretary Cisneros' testimony on how the GSE's have fared in meeting these goals. It is my understanding that both the enterprises have improved their overall performance in community development of underserved areas and have taken further initiatives to assist traditionally underserved borrowers. I find this most encouraging. But, I dare say, this is not enough.

It is a well known fact that the GSE purchases of mortgages of loans to minority borrowers are all too often very low, if barely existent. I look forward to the Secretary's comments on this issue and his ideas for how the GSE's might work with lenders in improving their performance in underserved areas.

I believe that the HUD's new Office of Federal Housing Enterprise Oversight has taken a very active start as the regulator of the GSE's. I look forward to working with this Committee and Secretary Cisneros in making sure we do everything possible in serving this country's vital housing needs.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR RIEGLE FROM HENRY G. CISNEROS

Q.1. Both Fannie Mae and Freddie Mac noted that the OMB definition of central cities—which is based on population, employment, and economic significance to metropolitan statistical areas—may have led to some unintended results. What changes are you considering in the central cities definition?

A.1. During the 1993–94 transition period the geographic goal applies only to housing located in central cities. By statute, the list of central cities defined by OMB must be used for this purpose.

After the transition period, the geographic goal is defined as the “Central Cities, Rural Areas, and Other Underserved Areas Housing Goal.” Research is underway concerning the appropriate definitions and measurement procedures to use for “underserved areas.” We are considering ways to focus the GSE’s purchases on those parts of the central cities, rural communities, and other areas that have poor access to mortgage credit.

HUD convened a roundtable with housing advocacy groups, researchers, and the GSE’s to discuss ways to define underserved areas. The discussion focused on the components of a long-term research agenda at HUD on this issue, and also on short-term proxy measures that could be used for purposes of the 1995 underserved goal. The discussion of short-term proxy measures focused on the use of three factors—income, minority concentration rates, and mortgage denial and origination rates—measured at the census tract level.

HUD is working with those factors, as well as others, to determine what the goal and list of “underserved” census tracts would be as a result of using those factors.

Q.2. The Act requires HUD to include rural and other underserved areas in the new definitions for the central cities category. How will you define rural and underserved areas?

A.2. As noted in Question Number 1, HUD is conducting research and consulting with researchers, the GSE’s, and advocacy groups on different ways to define underserved areas. HUD is examining the issue of the multiple existing definitions of “rural,” and whether a definition of “underserved” based on minority concentration, income, and mortgage origination and denial rates is appropriate for rural areas.

Q.3. Do you anticipate having subgoals for central cities, rural areas, and other underserved areas? Are you going to require the GSE’s to provide separate data on each of these areas so that we can accurately track the GSE’s activities?

A.3. HUD is looking at the issue of subgoals within the underserved goal but has not yet made a determination about the use of subgoals. HUD will require the GSE’s to provide information, both at the aggregated and at the individual-loan level, that will allow HUD and Congress to accurately track the GSE’s activities in underserved areas that are located in rural and urban communities.

Q.4. In your statement you said that you are planning to request that the GSE’s submit plans for your approval detailing how they

will reach their central cities goals in 1994, after having failed to meet them in 1993. What do those plans need to contain?

A.4. For both GSE's, we are asking for information that will allow HUD to track their progress in meeting the central cities goal during the remainder of 1994. For Freddie Mac, we are also requesting information on their plans for meeting the multifamily subgoal of the special affordable housing goal. HUD has asked the GSE's to incorporate answers to the following questions into their housing plans:

FANNIE MAE: CENTRAL CITIES

(1) What are the proportions of total units and total dollar volume of mortgage purchases to date in 1994 that are central city purchases? (Where proportions are requested in this and subsequent questions, please provide numerator and denominator figures in addition.)

(2) What are your projections for the proportions of total units and total dollar volume of single family mortgage purchases that will qualify under the central cities goal? Please provide this information for the second, third, and fourth quarters of 1994.

(3) Describe the activities, products, or programs that have been initiated, expanded, or planned in 1994 to increase performance under this goal. What are the objectives (in number of dwelling units and dollar amounts of mortgage purchases) of these activities, products, or programs as they relate to achieving the central cities goal?

FREDDIE MAC: CENTRAL CITIES

(1) What are the proportions of total units and total dollar volume of mortgage purchases to date in 1994 that are central city purchases? (Where proportions are requested in this and subsequent questions, please provide numerator and denominator figures in addition.)

(2) What are your projections for the proportions of total units and total dollar volume of single family mortgage purchases that will qualify under the central cities goal? Please provide this information for the second, third, and fourth quarters of 1994.

(3) Describe the activities, products, or programs that have been initiated, expanded, or planned in 1994 to increase performance under this goal. What are the objectives (in number of dwelling units and dollar amounts of mortgage purchases) of these activities, products, or programs as they relate to achieving the central cities goal?

FREDDIE MAC:

SPECIAL AFFORDABLE HOUSING MULTIFAMILY SUBGOAL

(1) What are the proportions of total dollar volume, of the dollar UPB amount, and of total units of multifamily purchases to date in 1994, that qualify for the special affordable multifamily housing subgoal?

(2) What are the current proportions of dollar volume and number of units for multifamily transactions (eligible for the special affordable housing subgoal) that have been committed but not yet delivered by lenders?

(3) What is Freddie Mac's volume of total multifamily purchases (in UPB and units) to date in 1994?

(4) Please describe the current number and (generally) the duties of staff people who are engaged in multifamily operations. Please provide information separately for staff who are primarily engaged in purchasing multifamily mortgages and staff who are primarily engaged in asset management issues.

(5) Please describe internal changes made by Freddie Mac to resume full-scale purchases of multifamily loans. How will Freddie Mac's multifamily staff be deployed differently, compared to the period before the program was suspended? How will the types of multifamily products offered by Freddie Mac differ in the future from before the program was suspended?

(6) How is Freddie Mac organizing to generate an adequate volume of business that will qualify under the special affordable multifamily subgoal?

(7) Please indicate the volume (to date during 1994, and projected for the remainder of the year) of (a) all multifamily mortgages and (b) SAH multifamily mortgages that will be originated by Freddie Mac's Program Plus lenders in 1994. Please describe the current and projected volume for non-Program Plus lenders.

(8) Please provide estimates of the UPB and units that will be purchased through Freddie Mac's involvement in special programs, including the FHA risk-sharing program and the AFL-CIO Housing Investment Trust National Partnership for Community Investment.

Q.5. What are your views about the proposed partnership between FHA and the GSE's? Do you think such partnerships would create an expansion of services to low-income families or would they result in little more than the GSE's receiving credit for what the FHA is already doing?

A.5. HUD believes that partnership activities between FHA and the GSE's will result in greater access to mortgage finance for low-income families, if those activities are properly designed. For example, the Congressionally mandated risk-sharing partnership in multifamily housing between the GSE's and FHA will result in the provision of 15,000 units of housing for low-income families. FHA is also working with the GSE's to provide training to lenders in the use of the streamlined 203(k) program, the FHA rehabilitation program particularly suited to inner-city single family homes in need of repair. In addition, FHA is proposing a single family risk-sharing demonstration, which, if approved by Congress, would allow FHA to work with Fannie Mae, Freddie Mac, and other qualified financial institutions to test new ways of delivering single family mortgage product.

Q.6. Do you think GSE efforts to increase their activity in central cities and with low- and moderate-income housing through greater consumer outreach and education and with more flexible underwriting guidelines have been effective?

A.6. In 1991, Fannie Mae pledged to invest \$10 billion in low- and moderate-income housing by the end of 1994 through their Opening Doors program. In fact, they achieved this target 16 months ahead of schedule. To address lenders' views that Fannie Mae's guidelines are rigid standards that preclude many loans in low- and mod-

erate-income neighborhoods, Fannie Mae has made more than 30 changes in their underwriting guidelines since 1987. In 1993 Fannie Mae expanded and refined their support for home buyer counseling, including development of a workbook in Spanish and English, and they created a bilingual outreach program to provide information about affordable loans. More than 100,000 people were helped when they called Fannie Mae's toll-free number.

In early 1993, Freddie Mac created the Underwriting Barriers Outreach Group ("UNBOG") to study its underwriting guidelines and to identify potential barriers so that Freddie Mac can make additional clarifications as necessary. More than a dozen new clarifications were announced on January 31, 1994, and more than 160 seminars have been held to date with Freddie Mac's Seller/ Servicers to communicate these clarifications and help ensure that they are understood and implemented. Freddie Mac has also developed an Alternative Qualification pilot program, to determine if, for example, borrowers who consistently pay a high percentage of their incomes in rent may be able to take on more mortgage debt than standard ratio guidelines suggest, without a significant increase of risk. Freddie Mac has also expanded its Seller/Servicer network to include community development banks and several other community-based intermediaries.

It is not possible to quantify precisely the impact of these various programs, many of which have recently been implemented, but they reflect a heightened awareness by the GSE's of the importance of their public purposes. HUD supports these endeavors and encourages additional innovative measures to increase support for low- and moderate-income housing and housing in central cities.

Q.7. Have you published a regulation governing the fair housing requirements for Fannie and Freddie? What part of HUD will be charged with enforcing this regulation?

A.7. The Department is planning to publish the fair lending regulation (described in Section 1325 of the GSE Act) as part of the permanent regulations for the GSE Act. We are currently drafting that portion of the regulation now, with plans to publish a proposed rule by September 1994. HUD's Fair Housing and Equal Opportunity Office, working in concert with the Offices of Housing, Policy Development and Research, and the Office of the General Counsel, will be charged with the responsibility for enforcing this portion of the permanent regulations.

Q.8. Now that HUD has joined with nine other agencies in adopting the "disparate impacts" standards in the area of lending discrimination, will the GSE's be required to review their underwriting criteria for their impact on minorities and other protected classes?

A.8. Yes. The GSE's will be required in the permanent regulations currently being drafted to review their underwriting criteria and business practices for disparate impact. The GSE's will be required to report to HUD on the results of their review. In addition, HUD will in 1994 begin its own review of the GSE's underwriting and appraisal guidelines for discriminatory impact. We believe that we cannot hold the GSE's to a lesser standard than that to which the primary lending industry is held.

Q.9. It is important that all Federal credit agencies eliminate discriminatory practices. What is the record of other Federal agencies?

A.9. President Clinton signed Executive Order 12892 on January 17, 1994. The Executive Order reinforces the establishment of this Department as the lead agency under the Fair Housing Act, as amended (42 U.S.C. 3601 et seq) ("Act"). This Executive Order establishes the responsibilities of the Federal Agencies, including those that have regulatory or supervisory authority over financial institutions, and establishes the President's Fair Housing Council which membership includes: the Secretary of the Treasury; the Attorney General; the Chair of the Federal Reserve; the Comptroller of the Currency; the Director of the Office of Thrift Supervision; the Chair of the Federal Deposit Insurance Corporation; and other cabinet level secretaries and which is chaired by the Secretary of Housing and Urban Development.

The President's Fair Housing Council is authorized by the Executive Order to review the design and delivery of Federal programs and activities to ensure they support a coordinated strategy to affirmatively further fair housing, including the elimination of discriminatory credit practices.

In addition, prior to the issuance of the Executive Order, in recognition of the serious problems of lending discrimination that exist in the Nation, the Secretary of HUD and the Comptroller of the Currency established a Task Force, later joined by the Attorney General, to issue a policy statement on Fair Lending that would address discrimination in lending that was prohibited by both the Fair Housing Act and the Equal Credit Opportunity Act.

As a part of this overall effort an Interagency Task Force on Fair Lending was established under Secretary Cisneros' leadership. The membership of this task force includes: this Department, the Department of Justice, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the Federal Housing Finance Board, the Office of Federal Housing Enterprise Oversight, the Federal Reserve, the Federal Deposit Insurance Corporation, the National Credit Union Administration, and the Federal Trade Commission. The first meeting of the Task Force was held on March 8, 1994, to consider a policy statement on discrimination in lending, which was adopted unanimously and published in the *Federal Register* on April 15, 1994.

As the Task Force proceeds, data will be gathered from the member agencies to assess the progress to eliminate discriminatory practices as part of the overall Federal fair lending effort. When such data are available and have been analyzed, we will share those data and analyses with the Committee.

Q.10. The 1992 GSE Act gave HUD the authority to collect data from Fannie and Freddie to help identify discriminatory practices by participating lenders. The Act also gave HUD the authority to require the enterprises to take "remedial actions, including suspension, probation, reprimand, or settlement, against lenders that have been found to have engaged in discriminatory lending practices." Has HUD used this authority to collect information on participating lenders? Have you required Fannie Mae and Freddie Mac to take any such remedial actions?

A.10. The permanent regulations will require the GSE's to cooperate with the Secretary in investigations of lenders suspected of violating either the Fair Housing Act or the Equal Credit Opportunity Act. The permanent regulations will also specify the process by which Fannie Mae or Freddie Mac would be required to carry out remedial actions against those lenders found to be in violation of either the Fair Housing Act or the Equal Credit Opportunity Act.

**RESPONSE TO WRITTEN QUESTIONS OF SENATOR BOND
FROM HENRY G. CISNEROS**

Q.1. Housing Bias Plan. Secretary Cisneros, the *Washington Post* on Saturday, April 9, 1994, published an article which stated that HUD was developing a plan that would permit HUD to withhold millions of dollars of housing and development assistance to cities and counties throughout the United States unless local housing officials remove discriminatory barriers to housing. While I recognize the importance of eliminating housing discrimination, I am not aware that the Department has the legal authority to withhold Federal housing funds in this way, and I would like a legal opinion from the Office of the General Counsel reviewing the legal foundation for this action.

I am especially concerned since holding up Federal housing dollars will generally impact those who need the assistance most. It could also have some unintended results; for example, it could have a chilling effect on the ability of landlords to make rational decisions on prospective tenants and on terminations of tenancies.

Finally, I emphasize that Secretary Kemp sought similar legislation to condition Federal funding on an acceptable local strategy to reduce affordable housing discrimination. This legislation was defeated almost unanimously on a bipartisan vote.

A.1. Fair Housing Plan. It is extremely important that I try to set the record straight and give you the historical perspective. This is consistent with the original intent of the 1968 Fair Housing Act which required that the Secretary of HUD administer all of HUD's housing and community development programs so as to affirmatively further fair housing.

Congress amended the CDBG program in 1983 to require that all recipients of CDBG funds, certify that they will affirmatively further fair housing. With the passage of the National Affordable Housing Act of 1990 Congress extended a similar requirement to all communities and States filing a CHAS and to the HOME program. The certification is not limited to activities conducted with CDBG or HOME funds, or to publicly-assisted housing.

Then in 1988, HUD issued regulations implementing the 1983 amendments. The regulations established a review requirement for affirmatively furthering fair housing where a grantee would be considered to be in compliance if it 1) conducted an analysis of fair housing impediments, and 2) took action designed to address the conditions identified as limiting fair housing choice.

More than 100 communities have adopted analyses of impediments since 1988. Cities that chose not to conduct an analysis were still required to take actions to affirmatively further fair housing. Some communities have taken actions likely to have a positive impact; other communities have done very little. Under the 1988 reg-

ulations, it is extremely difficult to hold communities accountable for achieving fair housing progress.

This Administration believes that it is important to take fair housing seriously. We also believe that the primary focus for fair housing planning should be at the local level, just as the Community Development plan is a local responsibility.

What follows has been reviewed and approved by HUD's Office of General Counsel (OGC). The proposed rule implementing the Fair Housing Plan has been reviewed and approved by the Office of General Counsel. According to the Office of General Counsel, promulgation by the Department of Regulations which require formula grantees to establish and carry out Fair Housing Plans, strategies which affirmatively further fair housing, is legally permitted by and entirely consistent with the provisions of Title I of the Housing and Community Development Act of 1974, Title I of the National Affordable Housing Act of 1990, and the Fair Housing Act.

All three statutes contain specific references to the Secretary's responsibility to insure that housing and community development activities undertaken and/or funded by the Department affirmatively further fair housing.

The Community Development statute provides that would-be recipients of Community Development Block Grant funds may receive the funds *only* if the grantee certifies *to the satisfaction of the Secretary*, that it will affirmatively further fair housing. It is entirely consistent with this directive that the Secretary set out in regulations that which constitutes a satisfactory certification in this regard. The Fair Housing Plan is just a "fleshing out" of what this requirement means. Satisfactory certification is a pre-condition of receiving grant funds.

In addition to the CDBG statute, Title I of the NAHA (CHAS) legislation also provides that the would-be recipient must submit "in a form the Secretary determines to be appropriate" a certification that it will "affirmatively further fair housing." See Section 105(b)(13). Again, it is entirely appropriate for the Secretary to set out through regulation that such certification will only be "satisfactory" if it contains the fair housing-related information and strategies set out in the Fair Housing Plan. There is nothing in the statute that encumbers the Secretary's ability to so provide, and doing so is consistent with the Department's own affirmative duty under Title VIII.

Finally, the requirement for a Fair Housing Plan is consistent with the Fair Housing Act itself. Section 808(e)(5) of the Act *requires* the Secretary to "administer the programs and activities relating to housing and urban development in a manner affirmatively to further the policies of this title." This duty is significantly reinforced by the Executive Order 12892, "Leadership and Coordination of Fair Housing," signed by President Clinton on January 17, 1994 (59 FR 2939; January 20, 1994).

"In carrying out the responsibilities in this order, the head of each executive agency shall take appropriate steps to require that all persons or other entities who are applicants for, or *participants in*, or *who are supervised or regulated under*, agency programs and

activities relating to housing and urban development shall comply with this order."

To the extent that the formula grant programs which will be covered by the Consolidated Plan are "entitlement programs," that "entitlement" is expressly limited by the program participant's willingness to evidence an enforceable commitment to the Nation's civil rights/fair housing laws, in the form and content which satisfies the Secretary.

HUD has no intention of attempting to withhold funds to communities except in cases of refusal to comply with the fair housing laws of the Nation.

Q.2. Rural Areas Mortgage Purchase Targets. Secretary Cisneros, the Central City Housing Goals are intended to include mortgage purchase goals for rural areas and other underserved areas. I understand that the existing interim regulation does not address GSE mortgage purchase targets for rural areas. The lack of affordable housing in rural areas is clearly a national problem. How does HUD intend to address the GSE mortgage purchase targets for rural areas and other underserved areas?

A.2. Section 1334(d) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, states that the geographic GSE housing goals for the 1993-94 transition period apply only to the purchase of mortgages on properties in central cities, as defined by the Office of Management and Budget (OMB). Section 1334(a) and the Senate report on this Act indicate that after this period the goal should be redefined and expanded to include rural areas and any other areas with relatively poor access to mortgage credit. HUD is currently drafting regulations for comment which will accomplish this objective of the 1992 Act.

Q.3. Cost of Regulation. Secretary Cisneros, on page 15 of your written testimony, you state a need for increased resources for HUD's regulatory oversight of Fannie Mae and Freddie Mac. What kind of increased resources are you seeking? Are you suggesting that the GSE's pay HUD for this oversight? What is the Department's estimate of the cost of HUD's regulatory oversight of the GSE's affordable housing goals?

A.3. The Federal Housing Enterprises Financial Safety and Soundness Act (the GSE Act) established a new regulatory structure for HUD's oversight of Fannie Mae and Freddie Mac. In addition to creating the Office of Federal Housing Enterprises Oversight, an independent agency within HUD, the GSE Act increased the Secretary's regulatory responsibilities for the GSE's programmatic activities. HUD now has increased staff needs and contracting costs due to its new and increased responsibilities for the programmatic regulation of the GSE's.

Congress has been critical of HUD's past performance as a regulator. The Senate "HUD has devoted few resources to regulation and supervision of the GSE's. . . . During the past 2 years, HUD has increased its oversight efforts in conjunction with increased Administration and Congressional concerns about GSE regulation. . . . While a very substantial improvement, these efforts appear to have been hampered by a lack of funds, Federal pay scale restric-

tions, and a focus by senior personnel on pressing needs in other areas." S. Rep. 102-282, 102d Cong., 2d Sess. at 12 (1992).

HUD is working to ensure that it is an effective and competent regulator of the GSE's by addressing the lack of funds and by making the regulation of the GSE's a high priority for the Department. HUD estimates that approximately \$4 million in additional funds are needed to hire additional staff and contracting resources to carry out the GSE programmatic regulation. HUD is not at this time suggesting that the GSE's pay for the costs of this oversight function.

Q.4. Freddie Mac's Multifamily Housing Program. I understand that the biggest shortfall in meeting an affordable housing goal is Freddie Mac's 1993 multifamily housing mortgage purchases under the GSE's Special Affordable Housing Purchase Goal. In fact, Freddie Mac met only 3 percent of the multifamily housing mortgage purchase goal under the Special Affordable Housing Purchase Goal. I state in defense of Freddie Mac that Freddie Mac suspended its multifamily mortgage purchase program in late 1990 when serious delinquencies in Freddie Mac's multifamily housing program resulted in more than \$500 million in losses. I understand that Freddie Mac is working to get this program back on track in an actuarially sound manner. Can you comment on the status of this program and Freddie Mac's prospects for meeting its multifamily mortgage purchase goals in the future?

A.4. Freddie Mac has spent the last 3 years revising its multifamily program so that it will avoid the mistakes it made in the late 1980's. It announced its full reentry into the multifamily market in December 1993. Freddie Mac's multifamily program now includes the purchase of mortgages from Program Plus Sellers and Servicers and the establishment of partnerships with public and private housing finance organizations, lenders, pension funds, and intermediaries. HUD has asked Freddie Mac to provide HUD with information on its multifamily program and the plans in place that will allow Freddie Mac to meet the special affordable multifamily goal for 1994.

Q.5. Underwriting Guidelines. Secretary Cisneros, your testimony indicates that Fannie Mae and Freddie Mac are reviewing their underwriting guidelines to provide more flexibility. Is HUD participating with the GSE's in reviewing the underwriting guidelines? In what capacity? Is this review being conducted in a manner consistent with safety and soundness considerations? I am also concerned about the possibility of HUD attempting to micromanage the business of Fannie Mae and Freddie Mac. What assurances can you provide that HUD will not use its regulatory authority to micromanage the GSE's?

A.5. With regard to the GSE's underwriting guidelines, in accordance with Section 1354 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, on October 28, 1993, Fannie Mae and Freddie Mac submitted extensive reviews of their underwriting guidelines to HUD, the Senate Committee on Banking, Housing, and Urban Affairs, and the House Committee on Banking, Finance and Urban Affairs. In accordance with Section 1325 of the 1992 Act, which deals with Fair Housing, the Secretary of

HUD is to periodically review and comment on the underwriting and appraisal guidelines of each enterprise to ensure that such guidelines are consistent with the Fair Housing Act and with this section of the 1992 Act. Regulations currently being drafted at HUD will indicate how such reviews will be conducted by the Department. Any reviews of these underwriting guidelines by HUD will be conducted in a manner consistent with safety and soundness considerations for the GSE's.

With regard to HUD's oversight, the Department has no intention of attempting to micromanage the business of the GSE's. HUD is cognizant of the Senate Report on the Federal Housing Enterprises Regulatory Reform Act of 1992, which states:

The Committee does not intend that [the Secretary's] regulatory authority be used to interfere in the normal business activities of the enterprises. S. Rep. 102-282, 102d Cong., 2d Sess. at 14 (1992).

and

The Committee does not mean for the . . . HUD Secretary to impose his or her business judgment on, or interfere with, the normal management prerogatives of an enterprise that has sound financial controls, and is adequately capitalized, and profitable. Congress created the enterprises under private ownership and management to bring the entrepreneurial skills and judgments of the private sector to bear on accomplishment of public purposes relating to housing. *Id.* at 25.

Q.6. Affordable Housing Goals. Secretary Cisneros, HUD is required to consider a number of factors, such as economic, housing, and demographic conditions, in establishing the various affordable housing goals. How will the possibility of increased interest rates be considered in establishing the affordable housing goals?

A.6. For each of the three housing goals (low- and moderate-income; central cities, rural areas, and other underserved areas; and special affordable), HUD is required to consider economic, housing, and demographic conditions that may be relevant for determining the appropriate percentage or dollar amount for the goal. As indicated in the Notices of interim housing goals published in the October 13, 1993, *Federal Register* HUD's analysis of these factors focuses on the housing and credit needs of lower income and underserved persons and the agencies' abilities to meet each affordable housing goal. The level of interest rates is a major determinant of overall mortgage activity and the amount and types of mortgage products that the agencies purchase. Low interest rates during 1993 encouraged borrowers to refinance their mortgages in record numbers. Because of this, refinancing accounted for over 65 percent of Fannie Mae's and Freddie Mac's single family mortgage purchases during 1993. Low interest rates also made it easier for families at all income levels to qualify for mortgages. As it determines the appropriate affordable housing goals for 1995, HUD will consider the effects of higher interest rates on the level of refinancing, the ability of families at all levels to qualify for mortgages (because the low-mod goal is expressed as a percentage of total business, measured in units), the flexibility of the GSE's underwriting guide-

lines, and the types of mortgages (e.g., 15-year vs. 30-year, fixed-rate vs. adjustable rate) that will likely be available for purchase by Fannie Mae and Freddie Mac.

**RESPONSE TO WRITTEN QUESTIONS OF SENATOR DOMENICI
FROM HENRY G. CISNEROS**

Q.1. If available, please provide a breakdown of the percentage of mortgage purchases by Fannie Mae and Freddie Mac benefiting Hispanics in New Mexico in each of the following housing goals categories:

- a. Low- and moderate-income housing
- b. Special affordable housing
- c. Central cities
- d. Rural areas, and
- e. Other underserved areas.

A.1. The housing goals for Fannie Mae and Freddie Mac for the 1993–94 transition period deal only with the purchase of mortgages for low- and moderate-income families, families living in central cities, and special affordable mortgage purchases. In accordance with Section 1334 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, after the transition period the coverage of geographic goal will be broadened to include central cities, rural areas, and other underserved areas, and HUD is currently working to implement this provision of the Act. Thus no information is available at this time on mortgage purchases by Fannie Mae and Freddie Mac benefiting Hispanics in New Mexico in rural areas and other underserved areas.

With regard to mortgage purchases by Fannie Mae and Freddie Mac benefiting Hispanics in New Mexico living in low- and moderate-income housing, special affordable housing, and central cities, HUD is currently verifying the individual loan-level data provided by the GSE's. HUD will be able to provide the Committee with an accurate response to this question by July 15th, after the verification tests have been completed.

Q.2. What percentage of all GSE's mortgage purchases in the State of New Mexico were for mortgages with Hispanic borrowers? How does this relate to the national percentage of GSE mortgage purchases with Hispanic borrowers?

A.2. For the Nation as a whole, as indicated in Table 9 of my testimony for the record at the April 13, 1994 hearing, data submitted by the GSE's indicates that 3.4 percent of the dwelling units in single family properties whose mortgages were purchased in 1993 by Fannie Mae were located in properties for which the mortgagors were Hispanic, and the corresponding figure for Freddie Mac was 3.3 percent. These figures exclude mortgages for which information on the race/ethnic background of the borrower was not available or was not applicable.

With regard to mortgage purchases by Fannie Mae and Freddie Mac benefiting Hispanics in New Mexico, HUD is currently verifying the individual loan-level data provided by the GSE's. HUD will be able to provide the Committee with an accurate response to this question by July 15th, after the verification tests have been completed.

Q.3. What percentage of HMDA-derived originations in 1992 in New Mexico went to Hispanic borrowers? How does this compare to the national percentage of originations for Hispanic borrowers?

A.3. For the Nation as a whole, as indicated in Table 9 of my testimony for the record at the April 13, 1994 hearing, tabulations of 1992 HMDA data by the Federal Reserve indicate that 3.3 percent of the single family properties with conventional mortgages less than the 1992 single-unit conforming loan limit (\$202,300, but 50 percent higher in Alaska, Guam, and Hawaii) were taken out by Hispanic mortgagors.

HUD is currently working with the HMDA data and will provide the Committee with a complete response to this question by June 1, 1994.



